



UNITED ARAB EMIRATES
MINISTRY OF FINANCE

Manual of Federal Government Accrual Accounting Standards

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Document Version Control

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	December 2020	March 2021	• Adding the accounting standards that must be applied as of January 1, 2020, which include: ○ New Standard for Employee Benefits (Standard 39) ○ The new standard on Public Sector Combinations (Standard 40) • Introducing updates in line with recent amendments to International Public Sector Accounting Standards • Update the definitions of some words in line with the laws and definitions of the federal government
Third Version	December 2022	January 2023	• Introducing updates in line with recent amendments to International Public Sector Accounting Standards • Modifying the standard for preparing the statement of cash flows to give the option to use the indirect method. • Updating the guide regarding some observations and suggestions on standards related to assets and inventory. • Updating the guide to the consolidated financial statements standard so that it allows excluding federal entities of a commercial and profitable nature from consolidation and accounting for them using the equity method in accordance with Standard 36 Investment in Associates and Joint Ventures • Adding the new Standard on Social Benefits and Appendix 2 "Appendix to new updated Section on Financial Instruments" that must be applied starting January 1, 2025.
Fourth Version	December 2023		• Introducing updates in line with recent amendments to International Public Sector Accounting Standards • Updating the manual to align the numbers of the Federal Government Accrual Accounting Standards with the numbers of the International Public Sector Accounting Standards. • Adding Appendix 3 "Newly issued Standards" that must be applied as of January 1, 2025, which include: ○ New Standard for Leases (Standard 43) ○ New Standard on Non-current Assets Held for Sale and Discontinued Operations (Standard 44)
Fifth Version	August 2025		• Introducing annual updates and Amendments to Other standards, resulting from the addition of the following standards: ○ Standard for Leases (FGAAS 43)

Version	Issued on	Approved on	Comments
			○ Standard on Non-current Assets Held for Sale and Discontinued Operations (FGAAS 44) ○ Standard for Financial Instruments (FGAAS 41) ● Adding the conceptual framework for general purpose financial reporting ● Removal of outdated standards: ○ Leases (FGAAS 13) ○ Financial Instruments (FGAAS 29) ● Updating cross references in the Manual relating to the addition of the new standards (41, 43 and 44) and resulting from deleting the old standards (29 and 13). ● Adding Appendix for "Newly issued Standards" that must be applied as of January 1, 2026, which include: ○ New Standard for Property, Plant and Equipment (Standard 45) ○ New Standard for Measurement (Standard 46) ○ New Standard for Revenue (Standard 47) ○ New Standard for Transfer Expenses (Standard 48) ○ New Standard for Retirement benefit Plans (Standard 49)

Approved by: _____

Date: _____

Introduction to the Manual

Federal Government - Future Vision

In order to become a regional and international leader in public financial management in line with IMF requirements and driven by its desire to efficiently and creatively manage and develop Federal Government's financial resources in accordance with international best practices, the Ministry of Finance launched a comprehensive and integrated program to convert the Federal Government's accounting framework from modified cash basis to accrual basis.

To this end, the Federal Government Accrual Accounting Standards (FGAAS) were developed taking into consideration themes of government work which directly affect Federal Government's performance; namely:

- A. **Economic impact** which entails identifying, maintaining and monitoring all Federal Government's assets and evaluating and monitoring all Federal liabilities; which would lead to effective allocation of resources and the resulting development of Government's expenditure and constant need to systematically assess performance, monitor the implementation of development plans and provide adequate data on all capital and operational expenses.
- B. **Impact on governance** which entails the development of solid financial policies and processes and a clear division of duties and responsibilities for financial information transparency and accountability purposes.
- C. **Technological and social development** which is expected to give rise to more complex transactions which require constant and rapid deduction of new accounting treatments. Therefore, the adopted accounting framework needs to be scalable in order to accommodate such technological and social development.
- D. **Global Openness** by benchmarking global financial performance, benefiting from international experiences with similar matters, developing and presenting public finance statistics in the international arena and Federal Government's commitment to provide periodic data to international bodies and meet other statistical organizations' need for more detailed data.

Purpose of the Manual of Federal Government Accrual Accounting Standards

Pursuant to Article (26) for the year 2019, the Federal Government Accrual Accounting Standards (FGAAS) were developed as part of the Federal Government Conversion to Accrual Accounting Program.

This Manual of Federal Government Accrual Accounting Standards (the “Manual”) was mainly developed based on International Public Sector Accounting Standards (IPSAS); benefiting, whenever necessary and from the provisions of other frameworks (such as the International Financial Reporting Standards “IFRS”). This Manual was developed after examining available accounting frameworks and the key five themes of Federal Government’s work which can be summarized as follows:

- A. Accounting standards work themes;
- B. The extent to which the standards meet the objectives of the federal government;
- C. Standards’ ability to satisfy the characteristics of Federal Government’s work;
- D. Meeting the needs of users of financial information and satisfying their requirements;
- E. The ability to develop transparent financial statements for public purposes.

The Manual also presents accounting treatment bases related to recognition, measurement, presentation and disclosure of transactions and balances related to financial transactions carried out by the Federal Government as part of its activities; which shall be followed by all federal entities for financial reporting purposes.

Therefore, this Manual aims to:

- A. Provide users with direction and guidance with respect to accounting treatment and presentation and disclosure requirements;
- B. Implement accounting treatment by all federal entities in a consistent and coordinated manner;
- C. Ensure comparison of financial performance at national and international levels over different fiscal periods.

Responsibility for this Manual

Review Responsibilities and Procedures

The Accounting Policies and Standards Department of the Ministry of Finance; in coordination with relevant departments depending on the nature of amendment; shall be responsible for Manual review procedures.

This Manual is annually reviewed by entities responsible for reviewing and updating it. However, it may require periodic amendments in the following cases:

- A. Any changes to currently adopted IPSAS or IFRS;
- B. Issuance of a new international standard affecting Federal Government's activities;
- C. Any changes to standards and interpretations thereof;
- D. Any changes to activities;
- E. Any changes to the interpretations of current standards.

This Manual may not be amended in any manner that would lead to violation of IPSAS requirements. Where amendments to this Manual are required, federal entities may, **upon consulting the Accounting Policies and Standards department**, propose such amendments by preparing an amendment request form stating the following:

- A. The part of the Manual to be amended and the overall reason for such amendment. An amendment may include providing additional guidance for more complex topics;
- B. The proposed amendment to the standard such that the change reference is consistent with IPSAS or IFRS requirements;
- C. The amended version of the paragraph or paragraphs in the relevant FGAAS as proposed by the entity with reference to the change reference in IPSAS or IFRS so as to demonstrate FGAAS's compliance with the standards of agreed upon frameworks;
- D. Endorsement of the amendment request form by authorized parties in the amendment requesting entity.

Once the amendment request form is endorsed by authorized parties in the amendment requesting federal entity, the Accounting Policies and Standards Department of the Ministry of Finance; in coordination with relevant departments; reviews the form and assesses its impact on the relevant FGAAS and the current Manual.

If the amendment is expected to explain, interpret or add value to the Manual, it is approved and the Manual is updated accordingly. Manual users are then notified of the amendment and its justification; along with a summary of its advantages.

If, after assessment, the Accounting Policies and Standards Department of the Ministry of finance believes that the impact of the amendment is inconsistent with Federal Government's work requirements and the requirements of IPSAS or IFRS, the Department either alters the amendment as deemed fit or totally refuses the same.

The Accounting Policies and Standards Department of the Ministry of Finance specifies the officials to be responsible for ensuring that the Manual is updated in line with changes to accounting standards or activities currently covered by this Manual. Said employees will be notified and trained, as may be deemed necessary, with respect to their responsibility for maintaining this Manual.

Manual Implementation Responsibilities

Each Federal entity shall be responsible for ensuring the implementation of accounting standards in accordance with this Manual.

The Accounting Policies and Standards Department of the Ministry of Finance, communicates the Manual of Federal Government Accrual Accounting Standards to all The Federal entities. One of the Department's activities is maintaining and continuously updating the Manual in line with any changes to laws, activities or interpretations of standards.

Users shall refer to this Manual in their day-to-day activities and information provided in this Manual shall be updated from time to time, as may be deemed necessary, in accordance with the aforementioned procedures.

How to Read this Manual

This manual was designed in a manner that enables users to acquire a general idea and detailed understanding of the accrual basis accounting framework. Accounting standards were grouped in sections based on close relations between them and the nature of users of the same.

The following table presents a high-level indexed reference of the contents of the Manual of Federal Government Accrual Accounting Standards. Each standard also includes a more detailed indexed reference at its outset.

List of Sections and Standards Included therein

Section -The Conceptual Framework for General Purpose Financial Reporting

Section- General Accounting Principles and Bases for Preparing Financial Statements

- Standard 33: First-Time Adoption of the Accrual Basis
- Standard 3: Accounting Policies, Changes in Accounting Estimates and Errors
- Standard 1: Presentation of Financial Statements
- Standard 2: Cash Flow Statements
- Standard 20: Related Party Disclosures
- Standard 24: Presentation of Budget Information in the Financial Statements
- Standard 14: Events after the Reporting Date

Section- Tangible and Intangible Assets

- Standard 17: Property, Plant and Equipment
- Standard 16: Investment Property
- Standard 31: Intangible Assets
- Standard 27: Agriculture
- Standard 43: Leases
- Standard 32: Service Concession Arrangements: Grantor
- Standard 26: Impairment of Cash-Generating Assets
- Standard 21: Impairment of Non-Cash-Generating Assets
- Standard 44: Non-current Assets Held for Sale and Discontinued Operations

Section - Inventories

- Standard 12: Inventories

Section- Financial Instruments

- Standard 28: Financial Instruments: Presentation
- Standard 41: Financial Instruments
- Standard 30: Financial Instruments: Disclosures
- Standard 5: Borrowing Costs
- Standard 4: The Effects of Changes in Foreign Exchange Rates

Section - Revenue

- Standard 9: Revenue from Exchange Transactions
- Standard 23: Revenue from Non-Exchange Transactions
- Standard 11: Construction Contracts

Section - Liabilities

- Standard 19: Provisions, Contingent Liabilities and Contingent Assets

Section- Employees Benefits

List of Sections and Standards Included therein

Standard 39: Employee Benefits

Section- Investments and Preparation of Consolidated Financial Statements

Standard 34: Separate Financial Statements

Standard 34.1: Interim Financial Statements

Standard 35: Consolidated Financial Statements

Standard 36: Investments in Associates and Joint Ventures

Standard 37: Joint Arrangements

Standard 38: Disclosure of Shares in Federal Entities or Other Establishments

Standard 18: Segment Reporting

Section - Public Sector Combinations

Standard 40: Public Sector Combinations

Section - Social Benefits

Standard 42: Social Benefits

In order to make it easier to read this Manual and highlight key definitions and concepts, key concepts and conditions were marked with special symbols to draw users' attention to them and put special focus on the same. The Manual was also enriched with many indicative examples in order to simplify certain paragraphs discussed in the relevant standards due to their nature, significance and relation to Federal Government's activities.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

General Definitions

Symbol	Description
Country	United Arab Emirates
Federal Government	Federal government of United Arab Emirates
Ministry	Ministry Of Finance
Minister	Minister Of Finance
Federal Entities	Ministries established under Federal Law No. (1) of 1972 regarding the functions of ministries and the powers of ministers, federal government agencies and bodies, which are classified as follows: 1. Ministries and Central Agencies: Ministries established under Federal Law No. (1) of 1972 regarding the functions of ministries and the powers of ministers, councils, agencies and the like that carry out federal executive, legislative and judicial activities. 2. Independent Federal Entities: Federal entities established and to be established in accordance with the legislation in force in the State with the aim of carrying out specific government tasks or services and operating under the supervision of the Government, which: a. The law or decision establishing it grants it an independent legal personality and the capacity to act, prepare, organize, and implement its own budget. b. It has its own administrative and organizational structure. c. None-profit.
Financial Year	12 calendar months, starting from the 1st of January and ends in 31st of December of each year.
General Budget	The government budget approved by a federal law that includes public resources estimated to be collected and public expenditures estimated to be disbursed from various federal entities during a specific fiscal year.
Single Treasury Account	The central account of the government, which is opened by a decision of the Minister and in which the financial resources of the federal entities are deposited.

Options and Topics Not Addressed by this Manual

The following table presents a list of topics not addressed by this Manual as they do not share the nature of activities carried out by the Federal Government and entities. The table also presents references for the international standards addressing each topic.

Topic	Reason for Exclusion from the Manual	IPSAS or IFRS Addressing this Topic
Financial Reporting in Hyperinflationary Economies	UAE's economy is strong, thriving and not hyperinflationary. Therefore, this topic is not addressed by the standards in this Manual.	IPSAS 10 - Financial Reporting in Hyperinflationary Economies
Income Taxes	UAE tax system does not impose "income taxes" on federal entities.	IAS 12 - Income Taxes
Earnings per Share	Transactions covered by this topic relate to appropriation of profits by providing disclosures and analyzing information related to calculation of an entity's earnings per share. Therefore, this topic is irrelevant to Federal Government's nature and activities; as the Government does not seek profit or appropriation of shares.	IAS 33 - Earnings per Share
Share-based Payment	This topic applies to parties which pay or settle certain transactions using their "shares" and this type of transactions is not carried out in the Federal Government as a whole.	IFRS 2 - Share-based Payment
Insurance Contracts	Federal Government's activities do not include the provision of services included in insurance contracts. Therefore, this topic was excluded.	IFRS 4 - Insurance Contracts
Exploration for and Evaluation of Natural Resources	Exploration for minerals and natural resources (Ex. Oil and gas) is not part of Federal Government's activities. Therefore, this topic was excluded.	IFRS 6 - Exploration for and Evaluation of Mineral Resources
Disclosure of Financial Information about the General Government Sector	The Federal Government, with all the parties and entities controlled thereby, is a sub-sector of the	IPSAS 22 - Disclosure of Financial Information about the General Government Sector

Topic	Reason for Exclusion from the Manual	IPSAS or IFRS Addressing this Topic
	general government sector which includes other sub-sectors, such as the UAE local governments sector, which are beyond the scope of Federal Government Accrual Accounting Standards. Therefore, this topic was excluded.	

In addition, IPSAS and IFRS include many options for users to make and adopt as they deem fit for their activities and the nature of their transactions. When developing this Manual, the Ministry of Finance examined all options and made the most appropriate decisions with respect to options provided by the aforementioned accounting frameworks based on which Federal Government Accrual Accounting Standards were developed. The following table presents a list of options taken.

Topic and Options	Decision and Justification	IPSAS Addressing this Topic
Property, Plant and Equipment - An option regarding subsequent measurement: ✓ Cost model; or ✓ Fair value model	The "Cost Model" was chosen, thus excluding the "Fair Value Model" from Federal Government Accrual Accounting Standards. The reason for excluding this option is that in the case of federal entities, consideration is given to the fact that finance is mainly dependent on the central government and, therefore, governments do not tend to present their assets at fair value. Moreover, recognition at fair value of the Government Finance Statistics Manual may be carried out at the end of the fiscal year as a settlement. Therefore, this model was adopted due to its positivity and consistency with international government entities.	IPSAS 17 - Property, Plant and Equipment
Property, Plant and Equipment - An option regarding depreciation of property, plant and equipment: ✓ Straight line method; or ✓ Declining balance method	The straight line method of depreciation of property, plant and equipment was adopted and the declining balance method was excluded from Federal Government Accrual Accounting Standards; after considering leading practices, as well as complexities associated with other methods of asset depreciation and the fact that government assets are by nature non-cash generating assets (in most cases).	IPSAS 17 - Property, Plant and Equipment
Borrowing Costs - An option regarding accounting for borrowing costs: ✓ Recording them as expenses; or ✓ Capitalizing them	It has been decided to capitalize borrowing costs for capital projects whenever capitalization requirements are satisfied. Therefore, recording such costs as expenses was excluded as an option due to the possibility of not having such option in the future and to avoid unfavorable changes in recognition method and the need to return to borrowing costs capitalization in the future.	IPSAS 5 - Borrowing Costs
Intangible Assets - An option regarding subsequent measurement: ✓ Cost model; or ✓ Fair value model	The "Cost Model" was chosen, thus excluding the "Fair Value Model" from Federal Government Accrual Accounting Standards, because some entities may resort to revaluation when presenting financial statements to stakeholders for borrowing and financing purposes. However, in the case of government entities, consideration is given to the fact that financing is mainly dependent on central government and, accordingly, governments do not tend to present their assets at fair value. Therefore,	IPSAS 31 - Intangible Assets

Topic and Options	Decision and Justification	IPSAS Addressing this Topic
	this model was adopted due to its advantages and consistency with international government entities.	
Investment Property - An option regarding subsequent measurement: ✓ Cost model; or ✓ Fair value model	The cost model for recording investment property was adopted in Federal Government Accrual Accounting Standards, and the fair value model was excluded; considering the accounting and administrative efforts associated with the fair value model, surplus and deficit fluctuations and the fact that values are subject to assumptions which can sometimes be biased or even controversial.	IPSAS 16 - Investment Property
Transition Periods - Two options regarding transition periods and comparative figures: Option 1 ✓ Utilization of transition periods; or ✓ Non-utilization of transition periods Option 2 ✓ Presentation of comparative figures; or ✓ Non-presentation of comparative figures	Federal Government Accrual Accounting Standards were developed based on the option of utilizing transition periods taking into consideration variations between countries in readiness for transition to cash basis, depending on the operations and financial reporting conditions and Federal Government's readiness with respect to identifying and recording all required items. It was also agreed not to present comparative information upon first-time adoption of accrual basis; due to the substantial accounting and administrative efforts involved and to avoid adding more burden to various federal entities during the first year of transition to accrual basis.	IPSAS 33 - First-time Adoption of Accrual Basis
Property, Plant and Equipment & Intangible Assets - An option regarding recognition of heritage assets: ✓ Recognition of these assets; or ✓ Non-recognition of these assets	Heritage assets are recognized when their value is measurable and the same principles set forth in this standard are followed, whenever possible, if said assets are recognized. Measurement of each heritage asset is assessed separately, as well as expected economic benefits thereof, to properly determine whether or not to recognize it. This decision enables the Federal Government to benefit from IPSAS's flexibility with respect to this class of assets. Therefore, the Federal Government has the option of not recognizing heritage assets when their value cannot be measured.	IPSAS 17 - Property, Plant and Equipment & IPSAS 31 - Intangible Assets
Financial Instruments - An option regarding financial instruments recognition date: ✓ Trading date; or ✓ Settlement date	When developing Federal Government Accrual Accounting Standards, trading date was adopted since the leading practice in the public and private sectors adopts this method as the common method of trading in and recognition of financial instruments. It is also the date on which trading in financial instruments takes place; i.e. when the transaction takes place. Therefore, the trading date is adopted when recording	IPSAS 28 - Financial Instruments

Topic and Options	Decision and Justification	IPSAS Addressing this Topic
	and recognizing financial instruments as it is the actual date of acquisition of the same.	
Social Benefits - An option regarding Accounting for Social Benefits: ✓ Option to Apply the General Approach; or ✓ Option to Apply the Insurance Approach	The general approach to recording, recognition, measurement, and disclosure has been chosen. The federal government's activities do not include the provision of services that fall under insurance contracts. Accordingly, the subject of insurance contracts was excluded and not addressed in the Federal Government Accrual Accounting Standards Manual. Consequently, the manual does not include any standards addressing insurance contracts, given that they are not applicable to the federal government's operating environment.	IPSAS 42 - Social Benefits
Leases - Option to: ✓ Benefit from the exemptions for short-term leases and leases where the underlying asset has a small value ✓ Not to benefit from the recognition exemptions	A federal entity lessee may choose not to apply the recognition requirements of IPSAS 43 Leases to: a. Short-term leases. b. Leases in which the underlying asset has a small value. The option to benefit from the exemptions for short-term leases and leases in which the underlying asset has a small value has been approved.	IPSAS 43 - Leases
Leases - Option Regarding: ✓ Benefiting from applying the standard's requirements to leases of intangible assets ✓ Not benefiting from applying the standard's requirements to leases of intangible assets	The option to benefit from applying the standard's requirements to leases of intangible assets has been chosen. This option helps enhance fair presentation and provides clarity to the reader of the financial statements of the nature and types of the entity's assets and liabilities, as well as the various types and nature of its leases, whether they relate to immovable assets (buildings and real estate), movable assets (machinery and equipment), or intangible assets (computer software, applications, websites, systems).	IPSAS 43 - Leases
Leases - Option to: ✓ Separate non-lease components from lease components ✓ Not to separate non-lease components from lease components	The option to separate non-lease components from lease components and account for them separately has been chosen. Separating non-lease components will differentiate the amounts to be recognized as lease assets and liabilities (for lease components) from the amounts to be recognized as operating expenses (for non-lease components).	IPSAS 43 - Leases
Leases - Option regarding:	The option to apply the standard to a portfolio of leases with similar characteristics was chosen if the	IPSAS 43 - Leases

Topic and Options	Decision and Justification	IPSAS Addressing this Topic
✓ Applying the standard to a portfolio of leases with similar characteristics ✓ Not benefiting from applying this standard to a portfolio of leases	entity reasonably expects that the effect on the financial statements of applying this standard to a portfolio of leases will not differ materially from applying this standard to the individual leases within that portfolio.	
Leases - Option regarding subsequent measurement of the right-of-use asset: ✓ Cost model; or ✓ Revaluation model	The cost model option was chosen because the Federal Government currently uses the cost model for the subsequent measurement of property, plant and equipment. Therefore, in order to ensure consistency of accounting policies across entities, the cost model should be used for the subsequent measurement of the right-of-use asset associated with the asset class (property, plant and equipment) to which the lessee applies the cost model.	IPSAS 43 - Leases
Leases - Option to apply the standard: ✓ Retrospectively to all previously presented reporting periods or ✓ Retrospectively with cumulative effect of initial application	The option to apply the standard "retrospectively with the cumulative effect of initial application" does not require restatement of comparative information for prior years and provides specific transitional provisions, practical expedients, and additional implementation conveniences. The option to apply the standard "retrospectively with the cumulative effect of initial application" was chosen.	IPSAS 43 - Leases
Financial Instruments - Option regarding application of the standard: ✓ Full retrospective or ✓ Modified retrospective	The "modified retrospective" application option does not require restatement of comparative information for prior years. The "modified retrospective" application option has been chosen.	IPSAS 41 - Financial Instruments



Section -The Conceptual Framework for General Purpose Financial Reporting

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Introduction to the Conceptual Framework for General Purpose Financial Reporting

Introduction to the Conceptual Framework for General Purpose Financial Reporting

1. The Conceptual Framework for Financial Reporting (the Conceptual Framework) establishes the concepts that are to be applied in developing Federal Government Accrual Accounting Standards (FGAASs) and Recommended Practice Guidelines applicable to the preparation and presentation of general purpose financial reports (GPFRs) of federal entities.
2. The primary objective of most federal entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently, the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. GPFRs provide information to users for accountability and decision-making purposes. Therefore, users of the GPFRs of federal entities need information to support assessments of such matters as:
 - A. Whether the entity provided its services to constituents in an efficient and effective manner;
 - B. The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
 - C. To what extent the burden on future-year taxpayers of paying for current services has changed; and
 - D. Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.
3. The following sections highlight characteristics of the Federal Government and the public sector that were considered in the development of the Conceptual Framework.

The Volume and Financial Significance of Non-Exchange Transactions

4. In a non-exchange transaction, an entity receives value from another party without directly giving approximately equal value in exchange. Such transactions are common in the Federal Government and public sector. The level and quality of services received by an individual, or group of individuals, is not normally directly related to the level of taxes assessed. An individual or group may have to pay a charge or fee and/or may have had to make specified contributions to access certain services. However, such transactions are, generally, of a non-exchange nature, because the amount that an individual or group of individuals obtains in benefits will not be approximately equal to the amount of any fees paid or contributions made by the individual or group. The nature of non-exchange transactions may have an impact on how they are recognized, measured, and presented to best support assessments of the federal entity by service recipients and resource providers.
5. Taxation is a legally mandated, compulsory non-exchange transaction between individuals or entities and the government. Governments and other federal entities are accountable to resource providers, particularly to those that provide resources through taxes and other compulsory transactions. Chapter 2, Objectives and Users of General Purpose Financial Reporting, discusses the accountability objective of financial reporting.

The Importance of the Approved Budget

6. The government and federal entities prepare budgets. In many jurisdictions there is a constitutional requirement to prepare and make publicly available a budget approved by the legislature (or equivalent). Legislation often defines the contents of that documentation. The legislature (or equivalent) exercises oversight, and the concerned parties and their representatives hold the entity's management financially accountable through the budget and other mechanisms. The approved budget is often the basis for setting taxation levels and is part of the process for obtaining legislative approval for spending.
7. Because of the approved budget's significance, information that enables users to compare financial results with the budget facilitates an assessment of the extent to which a federal entity has met its financial objectives. Such information promotes accountability and informs decision making in subsequent budgets. Reporting against budget is commonly the mechanism for demonstrating compliance with legal requirements relating to the public finances. The needs of users for budget information are discussed in Chapter 2.

The Nature of Federal Government and Public Sector Programs and the Longevity of the Public Sector

8. Many Federal Government and public sector programs are long term and the ability to meet commitments depends upon future taxation and contributions. Many commitments arising from Federal Government and public sector programs and powers to levy future taxation do not meet the definitions of a liability and an asset in Chapter 5, Elements in Financial Statements. Therefore, such commitments and powers are not recognized in the financial statements.
9. Consequently, the statement of financial position and statement of financial performance cannot provide all the information that users need on long-term programs, particularly those delivering social benefits. The financial consequences of many decisions will have an impact many years or even decades into the future, so GPFRs containing prospective financial information on the long-term sustainability of an entity's finances and key programs are necessary for accountability and decision-making purposes as discussed in Chapter 2.
10. Although control may change regularly, government generally have very long existences. The main service delivery commitments of federal entities may continue to be funded by a higher level of government. In other cases, entities that are unable to meet their liabilities as they fall due may continue to exist by restructuring their operations.
11. The going concern principle underpins the preparation of the financial statements. Interpretation of the principle needs to reflect the issues discussed in the two paragraphs above.

The Nature and Purpose of Assets and Liabilities in the Federal Government and Public Sector

12. In the Federal Government and public sector, the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by federal entities is specialized—for example, roads and military assets. There may be a limited market for such assets and, even then, they may need considerable adaptation in

order to be used by other operators. These factors have implications for the measurement of such assets. Chapter 7, Measurement of Assets and Liabilities in Financial Statements, discusses measurement bases for assets.

13. The government and federal entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and federal entities have a responsibility to preserve and maintain them for current and future generations.
14. The government often has powers over natural and other resources such as mineral reserves, water, fishing grounds, forests and the electromagnetic spectrum. These powers allow government to grant licenses for the use of such resources or to obtain royalties and taxes from their use. The definition of an asset and recognition criteria are discussed in Chapters 5 and 6, Recognition in Financial Statements.
15. The government and federal entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from government's role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. The definition of a liability and recognition criteria are discussed in Chapters 5 and 6.

The Regulatory Role of the government and Federal Entities

16. The government and federal entities have powers to regulate entities operating in certain sectors of the economy, either directly or through specifically created agencies. The underlying public policy rationale for regulation is to safeguard the public interest in accordance with specified public policy objectives. Regulatory intervention can also occur where there are market imperfections or market failure for particular services, or to mitigate against factors such as pollution, the impact of which is not transmitted through pricing. Such regulatory activities are carried out in accordance with legal processes.
17. The government may also regulate itself and other entities. Judgment may be necessary to determine whether such regulations create rights of, and obligations on, federal entities that require recognition as assets and liabilities, or whether the entity's ability to amend such regulations has an impact on how such rights and obligations are accounted for. Chapter 5 considers rights and obligations.

Relationship to Statistical Reporting

18. The government produces two types of ex-post financial information:
 - A. A. Government finance statistics (GFS) on the general government sector (GGS) for the purpose of macroeconomic analysis and decision making, and
 - B. B. General purpose financial statements (financial statements) for accountability and decision making at an entity level, including financial statements for the whole of government reporting entity.

19. GFS reporting guidelines include the International Monetary Fund's Government Finance Statistics Manual.
20. FGAAS financial statements and GFS reports have much in common. Both reporting frameworks are concerned with:
 - A. Financial, accrual-based information,
 - B. A government's assets, liabilities, revenue, and expenses and
 - C. Comprehensive information on cash flows. There is considerable overlap between the two reporting frameworks that underpin this information.
21. However, FGAASs and GFS reporting guidelines have different objectives. The objectives of financial reporting by federal entities are to provide information about the reporting entity that is useful to users of GPFRs for accountability purposes and decision-making purposes. GFS reports are used to:
 - A. Analyze fiscal policy options, make policy and evaluate the impact of fiscal policies,
 - B. Determine the impact on the economy, and
 - C. Compare fiscal outcomes nationally and internationally.
22. The different objectives and focus on different reporting entities lead to the different treatment of some transactions and events. The removal of differences between the two accounting frameworks that are not fundamental to their different objectives and reporting entities, and use of a single integrated financial information system to generate both FGAAS-compliant financial statements and GFS reports can provide benefits to users in terms of report quality, timeliness and understandability. These matters and their implications were considered in the development of Chapters 2, 4, and 7, which discuss the objectives of financial reporting, the reporting entity and measurement.



Chapter 1: Role And Authority of The Conceptual Framework

Chapter 1: Role and Authority of The Conceptual Framework

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Role of the Conceptual Framework

1. The Conceptual Framework for General Purpose Financial Reporting by entities and other public sector entities (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by entities that adopt the accrual basis of accounting. These concepts are applied in developing Federal Government Accrual Accounting Standards - (FGAASs) and Recommended Practice Guidelines applicable to the preparation and presentation of general purpose financial reports (GPFRs).

Other public sector entities include, but are not limited to ministries, departments, programs, councils, committees, and government agencies; social security funds, trust funds, and statutory authorities; and intergovernmental organizations.

Authority of the Conceptual Framework

2. The Conceptual Framework does not establish authoritative requirements for financial reporting by federal entities that adopt FGAASs, nor does it override the requirements of FGAASs or RPGs. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFRs are specified in FGAASs.
3. The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by FGAASs or RPGs. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

General Purpose Financial Reports

4. GPFRs are a central component of, and support and enhance, transparent financial reporting by the government and related entities. GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.
5. Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by financial reports useful for their purposes, financial reports are not developed to specifically respond to their particular information needs.
6. GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. GPFRs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements.
7. The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of

financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the next chapter.



Chapter 2: Objectives And Users of General Purpose Financial Reporting

Chapter 2: Objectives And Users of Purpose Financial Reporting

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Objectives of Financial Reporting

1. The objectives of financial reporting are to provide information about the federal entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes.
2. Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

3. The government and other entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These federal entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.
4. Consequently, GPFRs are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a federal entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) is also primary users of GPFRs and makes extensive and ongoing use of GPFRs when acting in its capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.
5. Citizens receive services from, and provide resources to, the government and other entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens -for example, residents who pay taxes and/or receive benefits but are not citizens; as well as many corporations that transact with the government. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.
6. GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes-for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating

agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Accountability and Decision Making

7. The primary function of the government and other entities is to provide services that enhance the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases these services are provided as a result of a non-exchange transactions and in a non-competitive environment.
8. The Federal Government is accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the federal entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by federal entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the federal entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.
9. Service recipients and resource providers will also require information as input for making decisions. For example:
 - A. Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or federal entities. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives and the resources allocated to support their achievement; and
 - B. Taxpayers do not usually provide funds to the Federal Government on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the services provided by an entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a particular entity or whether to purchase or consume the services provided.

10. Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the federal entity.

Information Needs of Service Recipients and Resource Providers

11. For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:
 - A. The performance of the federal entity during the reporting period in, for example:
 - ✓ Meeting its service delivery and other operating and financial objectives.
 - ✓ Managing the resources it is responsible for.
 - ✓ Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources.
 - B. The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the federal entity.
 - C. The sustainability of the federal entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the federal entity during the reporting period including, for example:
 - ✓ The capacity of the federal entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control.
 - ✓ The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
 - D. The capacity of the federal entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.
12. The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:
 - A. The federal entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest.
 - B. The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and

- C. Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the federal entity during the reporting period on the resources available to support the provision of services in future periods, the federal entity 's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

- 13. Resource providers will require information as input to assessments of such matters as whether the federal entity:
 - A. Is achieving the objectives established as the justification for the resources raised during the reporting period.
 - B. Funded current operations from funds raised in the current period from taxpayers or from other sources; and
 - C. Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the federal entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity " is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

Information Provided by General Purpose Financial Reports

Financial Position, Financial Performance, and Cash Flows

- 14. Information about the financial position of the Federal Government or other federal entities will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:
 - A. The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity.
 - B. The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
 - C. The amounts and timing of future cash flows necessary to service and repay existing claims to the federal entity 's resources.
- 15. Information about the financial performance of the Federal Government or other federal entities will inform assessments of matters such as whether the entity has acquired resources economically and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and

sources of cost recovery during the reporting period will assist users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

16. Information about the cash flows of the Federal Government or other federal entities contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.
17. Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other entity's:
 - A. Compliance with approved budgets and other authority governing its operations.
 - B. Service delivery activities and achievements during the reporting period; and
 - C. Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made, and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

Budget Information and Compliance with Legislation or Other Authority Governing the Raising and Use of Resources

18. Typically, the Federal Government or federal entities prepare, approve and make publicly available an annual budget. The approved budget provides interested parties with financial information about the federal entity's operational plans for the forthcoming period, its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of resources from taxpayers and other resource providers and establishes the authority for expenditure of resources.
19. Some resources to support the activities of federal entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of federal entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.

20. GPFRs provide information about the financial results (whether described as "surplus or deficit," "profit or loss," or by other terms), performance and cash flows of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.
21. The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the federal entity comply with the estimates reflected in approved budgets, and the federal entity's adherence to relevant legislation or other authority governing the raising and use of resources, is important in determining how well a federal entity has met its financial objectives. Such information is necessary for the discharge of the Federal Government's or other entity's accountability to its constituents, enhances the assessment of the financial performance of the entity and will inform decision making.

Service Delivery Achievements

22. The primary objective of Federal Government or other federal entities is to provide needed services to constituents. Consequently, the financial performance of Federal Government or other federal entities will not be fully or adequately reflected in any measure of financial results. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.
23. In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the reporting period will provide relevant information about the achievement of service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.
24. Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting such information is necessary for the Federal Government or other federal entities to discharge their obligation to be accountable—that is, to account for, and justify the use of, the resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

25. Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.

26. Decisions made by a government or other entities in a particular period about programs for delivering and funding services in the future can have significant consequences for:
- A. Constituents who will be dependent on those services in the future; and
 - B. Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.
27. Information about the federal entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the federal entity and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the Federal Government or other federal entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will support assessments of the sustainability of service delivery by a government or entity, enhance the accountability of the federal entity and provide additional information useful for decision-making purposes.

Explanatory Information

28. Information about the major factors underlying the financial and service delivery performance of the federal entity during the reporting period and the assumptions that underpin expectations about, and factors that are likely to influence, the federal entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in financial reports and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

Financial Statements and Information that Enhances, complements and Supplements the Financial Statements

29. The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements, and supplements those statements.
30. While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting.
31. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other chapters of the Conceptual Framework.

Other Sources of Information

32. GPFRs play a significant role in communicating information necessary to support the discharge of the Federal Government's or other federal entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, it is unlikely that GPFRs will provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued provide more detailed financial and non-financial information about the financial characteristics of the plans of government and federal entities over the short and medium terms. The government also issues report on the need for, and sustainability of, existing service delivery initiatives and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.



Chapter 3:

Qualitative

Characteristics

Chapter 3: Qualitative Characteristics

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Introduction

1. GPFRs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.
2. The qualitative characteristics of information included in GPFRs are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
3. Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.
4. Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in financial reports information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
5. The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting.

Relevance

6. Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
7. Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.
8. GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example,

information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

9. The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of a federal entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the federal entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

10. To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.
11. In practice, it may not be possible to know or confirm whether information presented in financial reports is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.
12. An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of financial reports. For example, a complete depiction of the item "plant and equipment" in financial reports will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information and information about the achievement of service delivery objectives and outcomes included in financial reports will need to be presented with the key assumptions that underlie that information and any explanations that are necessary to ensure that its depiction is complete and useful to users.
13. Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the federal entity or a decision or judgment that is to be made, or to induce particular behavior.

14. Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.
15. Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and revenue are not overstated, and liabilities and expense are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or revenue or the overstatement of liabilities or expense. Such misstatements can lead to the overstatement or understatement of revenue or expense in future reporting periods.
16. The exercise of prudence does not imply a need for asymmetry; for example, a systematic need for more persuasive evidence to support the recognition of assets or revenue than the recognition of liabilities or expense. Particular standards may contain asymmetric requirements where this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.
17. The economic and other phenomena represented in financial reports generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.
18. Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

19. Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of federal entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future

periods should be written in plain language and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

20. Users of GPFRs are assumed to have a reasonable knowledge of the federal entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

21. Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
22. Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of financial reports may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—for example, this may occur in respect of programs intended to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

23. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.
24. Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within a federal entity or in a single period across more than one federal entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by a federal entity may be revised to better represent a particular transaction or event in financial reports. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

25. Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.
26. Information about the federal entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:
- A. Prospective financial and non-financial information previously presented for that reporting period or reporting date.
 - B. Similar information about the same federal entity for some other period or some other point in time; and
 - C. Similar information about other federal entities (for example, entities providing similar services in different jurisdictions) for the same reporting period.
27. Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

28. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in financial reports—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:
- A. The information represents the economic and other phenomena that it purports to represent without material error or bias; or
 - B. An appropriate recognition, measurement, or representation method has been applied without material error or bias.
29. To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

30. Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).
31. The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute-some information may be more or less capable of verification than other information. However, the more verifiable is the information included in financial reports, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.
32. financial reports of federal entities may include financial and other quantitative information and explanations about (a) key influences on the federal entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.
33. To help assure users that prospective financial and non-financial quantitative information and explanations included in financial reports faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

34. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the federal entity, or the decisions that users make on the basis of the entity's financial reports prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each federal entity.
35. Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the federal entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its

nature-irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

36. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform characteristic or a uniform set of characteristics at which a particular type of information becomes material.
37. Materiality is classified as a constraint on information included in GPFRs in the Conceptual Framework. In developing FGAASs, will consider the materiality of the consequences of application of a particular accounting policy, basis of preparation or disclosure of a particular item or type of information. Subject to the requirements of any FGAASs, federal entities preparing financial reports will also consider the materiality of, for example, the application of a particular accounting policy and the separate disclosure of particular items of information.

Cost-Benefit

38. Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.
39. The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided.
40. Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts-because resources are redirected from service delivery activities to preparation of information for inclusion in financial reports.
41. Users reap the majority of benefits from the information provided by financial reports. However, information prepared for financial reports may also be used internally by management and result in better decision making by management. The disclosure of information in GPFRs consistent with the concepts identified in the Conceptual Framework and FGAASs derived from them will enhance and reinforce perceptions of the transparency of financial reporting by entities. Therefore, federal entities may also benefit in a number of ways from the information provided by GPFRs.
42. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the

information. When making this assessment, it is necessary to consider whether one or more qualitative characteristic might be sacrificed to some degree to reduce cost.

43. In developing FGAASs, information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements is taken into consideration. Disclosure and other requirements which result in the presentation of information useful to users of financial reports for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by FGAASs when the benefits of compliance with those disclosures and other requirements are assessed to justify their costs.

Balance between the Qualitative Characteristics

44. The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.
45. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.



Chapter 4: Reporting Entity

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Key Characteristics of a Reporting Entity..... 52

Introduction

1. The reporting entity is a government organization, another organization, program or identifiable area of activity (hereafter referred to as an entity) that prepares GPFRs.
2. An entity may comprise two or more separate entities that present GPFRs as if they are a single entity-such a reporting entity is referred to as a group reporting entity.

Key Characteristics of a Reporting Entity

3. Key characteristics of an entities are that:
 - A. It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
 - B. There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.
4. A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.
5. GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFRs of that entity or group of entities for information for accountability or decision-making purposes.
6. GPFRs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise resources and/or use resources previously raised to undertake activities for the benefit of, or on behalf of, its constituents.
7. The factors that are likely to signal the existence of users of GPFRs of an entity or group of entities include an entity having the responsibility or capacity to raise or deploy resources, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that an entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource

providers who are dependent on financial reports for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.

8. The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only entities for which such users exist are required to prepare GPFRs.
9. In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFRs of an entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of a government at the national, federal or local government level and for international public sector organizations. This is because the government and organizations generally have the capacity to raise substantial resources from and/or deploy substantial resources on behalf of their constituents, to incur liabilities, and to impact the economic and/or social well-being of the communities that depend on them for the provision of services.
10. However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional judgment.
11. The government and some other entities have a separate identity or standing in law (a legal identity). However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy resources, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these organizations, and entities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity.



Chapter 5: Elements in Financial Statements

Chapter 5: Elements in Financial Statements

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Introduction



Purpose of this Chapter

This Chapter defines the elements used in financial statements and provides further explanation about those definitions.

Elements and their Importance

1. Financial statements portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics. These broad classes are termed the elements of financial statements. Elements are the building blocks from which financial statements are constructed. These building blocks provide an initial point for recording, classifying and aggregating economic data and activity in a way that provides users with information that meets the objectives of financial reporting and achieves the qualitative characteristics of financial reporting while taking into account the constraints on information included in GPFRs.
2. The elements defined in this Chapter do not refer to the individual items that are recognized as a result of transactions and events. Sub-classifications of individual items within an element and aggregations of items are used to enhance the understandability of the financial statements.
3. In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of a federal entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude FGAASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as "other resources" or "other obligations") when necessary to better achieve the objectives of financial reporting.

Elements Defined

4. Financial The elements that are defined in this Chapter are:
 - A. Assets.
 - B. Liabilities.
 - C. Revenue.
 - D. Expense.
 - E. Ownership contributions; and
 - F. Ownership distributions.

Definitions of an Asset and a Resource

5. An asset is a resource presently controlled by the entity as a result of past events.
6. A resource is a right to either service potential or the capability to generate economic benefits, or a right to both.

This section discusses three components of these definitions:

- ✓ Rights.
- ✓ Service potential and economic benefits; and
- ✓ Present control as a result of past events.

Rights

7. Rights to service potential or to the capability to generate economic benefits take many forms, including:
 - A. Rights that correspond to an obligation of another party, for example:
 - ✓ Rights to receive cash.
 - ✓ Rights to receive goods or services.
 - ✓ Rights to exchange resources with another party on favorable terms. Such rights include, for example, a forward contract to buy a resource on terms that are currently favorable; and
 - ✓ Rights to benefit from an obligation of another party to transfer a resource if a specified uncertain future event occurs.
 - B. Rights that do not correspond to an obligation of another party, for example:
 - ✓ Rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from a leased object; and
 - ✓ Rights to use intellectual property.
8. Many rights are established by binding arrangement, legislation, or similar means. For example, a federal entity might obtain rights from owning or leasing a physical object, from owning a debt instrument such as a student loan, or from owning software or the right to use intellectual property. However, a federal entity might also obtain rights in other ways, for example:
 - A. By acquiring or creating knowledge that is not in the public domain, such as a traffic management plan; or
 - B. Through an obligation of another party that arises because that other party has little or no realistic alternative to avoid a transfer of resources.
9. Some services—for example, employee services and services-in-kind—are received and immediately consumed. An entity's right to obtain the service potential or economic benefits produced by such services exists very briefly until the federal entity consumes the services.
10. Not all of a federal entity's rights are assets of that federal entity. To be assets of the federal entity, the rights must (i) have service potential or economic benefits beyond those available to all other parties and (ii) be controlled by the federal entity. Rights available to all parties without significant cost—for instance, rights of access to public goods, such as public rights of way over land, or knowledge that is in the public domain—are typically not assets for the federal entities that hold these rights.
11. In principle, each of a federal entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single unit of account that is a single. For

example, legal ownership of a physical object may give rise to several rights, including a right to:

- A. Use the object.
 - B. Sell rights over the object; and
 - C. Pledge rights over the object.
12. In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way.

Service Potential and Economic Benefits

13. Service potential is the capability of a resource to provide services that contribute to achieving the federal entity's objectives. Service potential enables a federal entity to achieve its objectives without necessarily generating net cash inflows.
14. Federal Government assets that embody service potential may include recreational, heritage, community, defense and other assets that are held by governments and federal entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas in which market competition is limited or non-existent. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.
15. Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:
- A. An asset's use in the production and sale of services; or
 - B. The direct exchange of an asset for cash; or
 - C. Extinguishing or reducing a liability by transferring an asset.

Presently Controlled by the Federal Entity as a Result of Past Events

16. A federal entity must have control of the resource. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.
17. In assessing whether it presently controls a resource, a federal entity assesses whether the following indicators of control exist:
- A. Legal ownership;
 - B. Access to the resource, or the ability to deny or restrict access to the resource.
 - C. The means to ensure that the resource is used to achieve its objectives; and
 - D. The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.

18. Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to arrange for the distribution of goods controlled by the principal to eligible beneficiaries. If an agent has custody of a resource controlled by the principal, that resource is not an asset of the agent.
19. The definition of an asset requires that a resource that a federal entity presently controls must have arisen from one or more past transactions or other past events. The past transactions or other events that result in a federal entity gaining control of a resource and therefore an asset may differ. Federal entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum technology, are examples of government-specific powers and rights that may give rise to assets. In assessing when a federal entity's control of rights to resources arise the following events may be considered:
 - A. A general ability to establish a power,
 - B. Establishment of a power through a statute,
 - C. Exercising the power to create a right, and
 - D. The event which gives rise to the right to receive resources from an external party.

An asset arises when the power is exercised, and the rights exist to receive resources.

Liabilities

20. A liability is a present obligation of the federal entity to transfer resources as a result of past events. A For a liability to exist, three criteria must all be satisfied:
 - A. The federal entity has an obligation.
 - B. The obligation is to transfer resources; and
 - C. The obligation is a present obligation arising from one or more past events.
21. Federal entities can have a number of obligations. Obligations are binding when a federal entity has little or no realistic alternative to avoid them.
22. Binding obligations can be legal obligations or non-legally binding obligations. Binding obligations can arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. A federal entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of an external party is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for an obligation and a liability to exist.

23. Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an obligation involves a transfer of resources and gives rise to a liability. However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.

Legal Obligations

24. A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. There are jurisdictions where government and federal entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect. Obligations that are binding through such alternative processes are considered legal obligations in the Conceptual Framework. For some types of non-exchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that a federal entity has little or no realistic alternative to avoid the obligation and that a liability exists.
25. Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date but will be enforceable with the passage of time without the external party having to meet further conditions-or having to take any further action-prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.
26. Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Conceptual Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.

Non-Legally Binding Obligations

27. Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:
- A. The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities.
 - B. As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
 - C. The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

A Transfer of Resources from the Federal entity

28. To satisfy the definition of a liability the obligation must have the potential to require the federal entity to transfer resources to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer resources-the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the present obligation exists, and that, at least in one circumstance, it would require the entity to transfer resources.
29. An obligation can meet the definition of a liability even if the probability of a transfer of resources is low. Nevertheless, that low probability might affect decisions about the information provided about the liability and how the information is provided. Chapter 6 provides guidance on recognition and Chapter 7 provides guidance on measurement.
30. Obligations to transfer resources include, for example:
- A. Obligations to pay cash.
 - B. Obligations to provide services or deliver goods.
 - C. Obligations to exchange resources with another party on unfavorable terms. Such obligations include, for example, a forward contract to sell on terms that are currently unfavorable or an option that entitles another party to purchase resources from the entity.
 - D. Obligations to transfer resources if a specified uncertain future event occurs; and
 - E. Obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer a resource.
31. Instead of fulfilling an obligation to transfer resources to the party that has a right to receive resources, entities may in some circumstances:
- A. Settle the obligation by negotiating a release from the obligation.
 - B. Transfer the obligation to a third party; or
 - C. Replace the obligation to transfer resources with another obligation by entering into a new transaction.
32. In the situations identified in the previous paragraph a federal entity has an obligation to transfer resources until it has settled, transferred, or replaced that obligation.
33. If the agent has an obligation to transfer resources controlled by the principal to a third party, that obligation is not a liability of the agent. In such a case the resources that would be transferred are the principal's resources.

Present Obligation as a Result of Past Events

34. A present obligation is binding. To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of one or more past transactions or other past events and has the potential to require the federal entity to transfer resources from the entity.
35. A present obligation exists as a result of past events only if:

- A. The federal entity has already obtained service potential or economic benefits or taken an action; and
 - B. As a consequence, the federal entity will or may have to transfer resources that it would not otherwise have had to transfer.
36. Obligations may arise at a number of points. For example, in implementing a program or service:
- A. Announcement of a policy.
 - B. Introduction (and approval) of the budget (which may be two distinct points); and
 - C. The budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been affected).

The initial stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability. An entity cannot be obligated to itself as a result of a public communication.

37. The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid a transfer of resources include:
- A. The nature of the past event or events that give rise to the obligation. Where the government has committed to introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation.
 - B. The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented; and
 - C. There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However, the absence of a budgetary provision does not itself mean that a present obligation has not arisen.
38. Other circumstances may give rise to situations where, although the entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Other circumstances may lead to a liability arising from a non-legally binding obligation.

Assets and Liabilities

Unit of account

39. The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations to which recognition criteria and measurement concepts are applied.
40. A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related revenue and expense. In some circumstances it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, arrangements may sometimes be recognized individually but measured as part of a portfolio of binding arrangements. For presentation and disclosure, assets, liabilities, revenue and expense may need to be aggregated or separated into components.
41. If an entity transfers part of an asset or part of a liability, the unit of account may change at that time, so that the transferred component and the retained component become separate units of account.
42. A unit of account is selected to provide useful information, which implies that:
- A. The information provided about the asset or liability and about any related revenue and expense must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating each right or obligation as a separate unit of account if, for example, those rights and obligations:
 - ✓ Cannot be or are unlikely to be the subject of separate transactions.
 - ✓ Cannot or are unlikely to expire in different patterns.
 - ✓ Have similar characteristics and risks; or
 - ✓ Are used together in the operational activities conducted by an entity to provide services or to produce cash flows and are measured by reference to estimates of their interdependent service potential or future cash flows.
 - B. Information provided about the asset or liability and about any related revenue or expense must faithfully represent the substance of a transaction or other event from which they have arisen. Therefore, it may be necessary to treat rights or obligations arising from different sources as a single unit of account, or to separate the rights or obligations arising from a single source. Equally, to provide a faithful representation of unrelated rights or obligations, it may be necessary to recognize and measure them separately.
43. In selecting a unit of account, it is also important to consider the cost-benefit constraint of financial reporting discussed in Chapter 3. In general, the costs associated with recognizing and measuring assets, liabilities, revenue and expense increase as the size of unit of account decreases. Hence, in general, rights or obligations arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs.

44. One example of rights and obligations arising from the same source are binding arrangements, which establish both rights and obligations for each of the parties. If those rights and obligations are interdependent and cannot be separated, they constitute a single inseparable asset or liability and hence form a single unit of account.
45. Conversely, if rights are separable from obligations arising from the same source, it may sometimes be appropriate to group the rights separately from the obligations, resulting in the identification of one or more separate assets and liabilities. In other cases, it may be more appropriate to group separable rights and obligations in a single unit of account, treating them as a single asset or a single liability.
46. Treating a set of rights and present obligations as a single unit of account differs from offsetting assets and liabilities. Offsetting occurs when a federal entity recognizes and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

Binding Arrangements that are Equally Unperformed

47. Some binding arrangements, or portions of binding arrangements, may be equally unperformed whereby neither party has fulfilled any of its obligations or both parties have partially fulfilled their obligations to an equal extent. Such binding arrangements establish a combined right and obligation to exchange resources. The right and obligation are interdependent and cannot be separated. Hence the combined right and obligation constitute a single asset or liability. The federal entity has an asset if the terms of the exchange are currently favorable; it has a liability if the terms of the exchange are currently unfavorable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria (see Chapter 6) and the measurement basis selected for the asset and liability (see Chapter 7).
48. To the extent that either party fulfills its obligations under the binding arrangement, the binding arrangement changes character. If the reporting entity performs first under the binding arrangement, that performance is the event that changes the reporting federal entity's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's right and obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.

Net Financial Position, Other Resources, and Other Obligations

49. As explained previously, in some cases, in developing or revising an FGAAS may determine that to achieve the objectives of financial reporting a resource or obligation that does not satisfy the definition of an element defined in the Conceptual Framework needs to be recognized in the financial statements. In these cases, the FGAAS may require or allow these resources or obligations to be recognized as other resources or other obligations, which are items additional to the six elements defined in this Conceptual Framework.

50. Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position. Net financial position can be a positive or negative residual amount.

Revenue and Expense

51. Revenue is increases in the net financial position of the federal entity, other than increases arising from ownership contributions.
52. Expense is decreases in the net financial position of the federal entity, other than decreases arising from ownership distributions.
53. Revenue and expense arise from exchange and non-exchange transactions, other events such as unrealized increases and decreases in the value of assets and liabilities, and the consumption of assets through depreciation and erosion of service potential and capability to generate economic benefits through impairments. Revenue and expense may arise from individual transactions or groups of transactions.

Surplus or Deficit for the Period

54. The surplus or deficit for the period is the difference between revenue and expense reported on the statement of financial performance.

Ownership Contributions and Ownership Distributions

55. Ownership contributions are inflows of resources to a federal entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.
56. Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the federal entity.
57. It is important to distinguish inflows of resources from owners, including those inflows that initially establish the ownership interest, and outflows of resources to owners in their capacity as owners from revenue and expense. In addition to the injections of resources and the payment of dividends that may occur, in some jurisdictions it is relatively common for assets and liabilities to be transferred between entities. Where such transfers satisfy the definitions of ownership contributions or ownership distributions they will be accounted for as such.
58. Ownership interests may arise on the creation of an entity when another entity contributes resources to provide the new entity with the capacity to commence operational activities. Contributions to, and distributions from, entities are sometimes linked to the restructuring of government and will take the form of transfers of assets and liabilities rather than cash transactions. Ownership interests may take different forms, which may not be evidenced by an equity instrument.

59. Ownership contributions may take the form of an initial injection of resources at the creation of an entity or a subsequent injection of resources, including those where an entity is restructured. Ownership distributions may be: (a) a return on investment; (b) a full or partial return of investment; or (c) in the event of the entity being wound up or restructured, a return of any residual resources.



Chapter 6:

Recognition in

Financial Statements

Chapter 6: Recognition in Financial Statements

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Recognition Criteria and their Relationship to Disclosure

1. This chapter identifies the criteria that must be satisfied in order for an element to be recognized in the financial statements. Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in financial reports.
2. The recognition criteria are that:
 - A. An item satisfies the definition of an element; and
 - B. Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in financial reports.
3. All items that satisfy the recognition criteria are recognized in the financial statements. In some circumstances, an FGAAS may also specify that, to achieve the objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognized in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints.
4. Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The conditions that give rise to uncertainty, if any, can change. Therefore, it is important that uncertainty is assessed at each reporting date.

Definition of an Element

5. In order to be recognized as an element an item must meet the definition of one of the elements in Chapter 5. Uncertainty about the existence of an element is addressed by considering the available evidence in order to make a neutral judgment about whether an item satisfies all essential characteristics of the definition of that element, taking into account all available facts and circumstances at the reporting date.
6. If it is determined that an element exists, uncertainty about the amount of service potential or ability to generate economic benefits represented by that element is taken into account in the measurement of that element (see the following two paragraphs). Preparers review and assess all available evidence in determining whether an element exists and is recognized, whether that element continues to qualify for recognition, or whether there has been a change to an existing element.

Measurement Uncertainty

7. In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is

sufficiently relevant and faithfully representative for the item to be recognized in the financial statements.

8. There may be uncertainty associated with the measurement of many amounts presented in the financial statements. The use of estimates is an essential part of the accrual basis of accounting. A decision about the relevance and faithful representativeness of measurement involves the consideration of techniques, such as using ranges of outcomes and point estimates, and whether additional evidence is available about economic circumstances that existed at the reporting date. Disclosures can provide useful information on estimation techniques employed. There may be rare instances in which the level of uncertainty in a single point estimate is so large that the relevance and faithful representativeness of the measure is questionable even if disclosures are provided to explain estimation techniques. Under these circumstances the item is not recognized

Disclosure and Recognition

9. The failure to recognize items that meet the definition of an element, and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail. However, disclosure can provide information about items that meet many, but not all the characteristics of the definition of an element. Disclosure can also provide information on items that meet the definition of an element but cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting. Disclosure is appropriate when knowledge of the item is considered to be relevant to the evaluation of the net financial position of the federal entity and therefore meets the objectives of financial reporting.

Derecognition

10. Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognized from the financial statements and removing the item if such changes have occurred. In evaluating uncertainty about the existence of an element the same criteria are used for derecognition as at initial recognition.



Chapter 7:

Measurement of

Assets and Liabilities

in Financial

Statements

Chapter 7: Measurement of Assets and Liabilities in Financial Statements

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Introduction

1. This Chapter identifies the measurement concepts that guide the selection of the most commonly used measurement bases for FGAAS and for preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in FGAAS.

The Objective of Measurement

2. The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity, and financial capacity of the federal entity in a manner that is useful in holding the federal entity to account, and for decision-making purposes.
3. The selection of measurement bases for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:
 - A. Cost of services-the cost of services provided in the period in historical or current terms.
 - B. Operational capacity-the capacity of the federal entity to support the provision of services through physical and other resources; or
 - C. Financial capacity-the capacity of the federal entity to fund its activities.
4. The selection of measurement bases also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports. The following subsections provide guidance on measurement at recognition (initial measurement) and measurement subsequent to recognition (subsequent measurement).

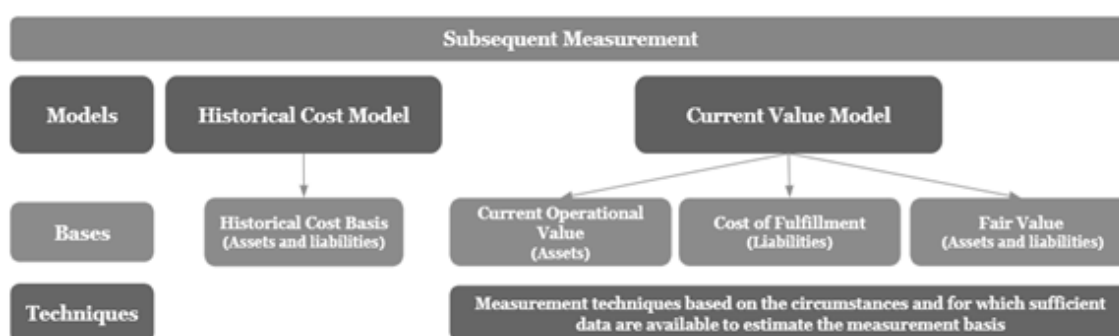
Recognition (initial measurement)

5. Initial measurement for an asset is at transaction price plus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration given to acquire, construct or develop an asset. Transaction costs for assets are incremental costs that are directly attributable to the acquisition, construction, or development, of an asset and would not have been incurred if the federal entity had not acquired, constructed, or developed the asset. Transaction price plus transaction costs is the historical cost for an asset.
6. Initial measurement for a liability is at transaction price minus transaction costs unless there are no reliable transaction price data available, or there is another more representationally faithful measurement basis. Transaction price is the consideration received to assume an obligation. Transaction costs for liabilities are incremental costs that are directly attributable to the incurrence of a liability and would not have been incurred if the entity had not incurred the liability. Transaction price minus transaction costs is the historical cost for a liability.

7. For both assets and liabilities, where there are no transaction price data available or if the transaction price does not faithfully present relevant information about the asset and liability of the entity' in a manner that is useful in holding the federal entity to account, and for decision-making purposes, a deemed cost is used.

Subsequent Measurement

8. Subsequent to initial measurement there are three levels of measurement:
- Measurement models.
 - Measurement bases; and
 - Measurement techniques.



9. Measurement models are the broad approaches for measuring assets and liabilities for inclusion in the financial statements.
10. Under the historical cost model, assets and liabilities are measured at historically based amounts. Changes in value due to price changes are not reflected, except for impairments for assets and where an obligation becomes onerous for liabilities.
11. Under the current value model, assets and liabilities are measured using information updated to reflect price changes to the measurement date.
12. Measurement bases are specific ways of measuring assets and liabilities under the selected measurement model. Measurement bases provide information that best meets the qualitative characteristics while taking into account the constraints on information in financial reports.
13. Subsequent measurement may be either on the historical cost measurement basis or on one of the measurement bases under the current value model.
14. Measurement techniques are methods to estimate the amount at which an asset or liability is measured under the selected measurement basis. The selection of a measurement technique depends on factors such as the characteristics of an asset or a liability and the availability of observable data.

The Selection of Measurement Models and Measurement Bases

15. It is not possible to identify a single measurement model or measurement basis that best meets the measurement objective at a conceptual level for all circumstances. Therefore, the

Conceptual Framework does not propose a single measurement model or measurement basis (or combination of bases) for all transactions, events, and conditions. It provides guidance on the selection of a measurement model and a measurement basis for assets and liabilities from those bases most commonly used in order to meet the measurement objective. It may be necessary to select measurement bases from different measurement models in order to meet the measurement objective.

16. The following measurement bases for assets are identified and discussed in terms of the information they provide about (a) the cost of services delivered by an entity, (b) the operational capacity and the financial capacity of an entity; and (c) the extent to which they provide information that meets the qualitative characteristics while taking into account the constraints on information in financial reports:
 - A. Historical cost.
 - B. Current operational value; and
 - C. Fair value.
17. Value in use is used solely for the impairment of assets.
18. The following measurement bases for liabilities are identified and discussed:
 - A. Historical cost.
 - B. Cost of fulfillment; and
 - C. Fair value.

Entity-Specific and Non-Entity-Specific Measures

19. Measurement bases may be classified according to whether they are "entity-specific" or "non-entity-specific". Measurement bases that are federal entity-specific reflect the economic, legal and other constraints that affect the possible uses of an asset or the fulfillment of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks to which other entities are not exposed. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measurement basis is taken by reference to the measurement objective and the qualitative characteristics. The following tables show classification of the measurement bases for assets and liabilities as entity-specific or non-entity-specific.

Classification of Measurement Bases for Assets as Entity-Specific or Non-entity -Specific

Measurement Basis	Entity-Specific or Non-Entity-Specific
Historical cost	Entity-Specific
Current operational value	Entity-Specific
Fair value	Non-Entity-Specific

Classification of Measurement Bases for Liabilities as Entity-Specific or Non-Entity-Specific

Measurement Basis	Entity-Specific or Non-Entity-Specific
Historical cost	Entity-Specific
Cost of fulfillment	Entity-Specific
Fair value	Non-Entity-Specific

Entry and Exit Values

20. Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction, or development. Exit values are based on the economic benefits from sale. Current operational value and historical cost are federal entity specific measures for assets and are entry values. Fair value is a market-based, non-federal entity specific measure, and is an exit value.
21. For liabilities, entry values relate to the transaction or event under which an obligation is incurred. Exit values reflect the amount required to fulfill or transfer an obligation. For example, historical cost is an entity specific measure for liabilities and is an entry value, Cost of fulfillment is a federal entity specific measure and fair value is a market-based, non-federal entity specific measure; both measures are exit values.
22. Identifying whether measurement bases provide entry or exit values supports the determination of the approach to transaction costs. Entry-based measurement bases normally include transaction costs on the acquisition, construction, or development of an asset and on the incurrence of a liability. Exit-based measurement bases normally include transaction costs on sale of an asset or fulfillment or transfer of a liability.

Level of Aggregation or Disaggregation for Measurement

23. In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics, it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate, consideration is given to:
- A. Guidance on unit of account in Chapter 5.
 - B. The materiality of aggregation or disaggregation; and
 - C. The costs of aggregation or disaggregation compared with the benefits in terms of the extent to which the aggregation or disaggregation meets the objectives of financial reporting.

Measurement Bases for Assets

24. This section discusses the following measurement bases for assets:
- A. Historical cost.
 - B. Current operational value; and
 - C. Fair value.

Historical Cost

25. Historical cost for an asset is the consideration given to acquire, construct, or develop an asset at the time of its acquisition, construction, or development plus transaction costs.
26. Consideration is the cash or cash equivalents, or the value of other resources given. Historical cost is an entity-specific measurement basis reflecting the costs incurred in acquiring, constructing, or developing an asset. Subsequent to initial measurement, the historical cost for certain assets may be allocated as an expense to reporting periods in the form of depreciation or amortization. Depreciation and amortization represent the consumption of the service potential or ability to generate economic benefits provided by such assets over their useful lives. Consistent with the historical cost model, following initial measurement, the carrying amount of an asset is not changed to reflect changes in prices, except where related to impairment.
27. Under the historical cost model, the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset has diminished due to changes in economic or other conditions, which is distinct from the consumption of an asset. This involves an assessment of the recoverable amount of an asset. Depreciation, amortization, and impairment may also be relevant to measurement bases under the current value model. Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements or other events, such as the accrual of interest on a financial asset.

Cost of Services

28. Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire, construct, or develop assets consumed in the provision of services. Historical cost generally is based on the transactions actually entered into by the entity. As the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the current cost of assets when the assets are consumed. As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition, construction, or development are significant. Where budgets are prepared on the historical cost basis, historical cost information demonstrates the extent to which the budget has been executed.

Operational Capacity

29. If an asset has been acquired, constructed, or developed in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their acquisition cost. At the time an asset is acquired, constructed, or developed, it can be assumed that the value to the federal entity of its service potential is at least equal to the cost of its acquisition, construction, or development. When depreciation or amortization is recognized, it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services are at least equal to the amount at which they are stated. Where an asset has been

acquired, constructed, or developed in a non-exchange transaction, the transaction price will not provide information on operational capacity that meets the qualitative characteristics while taking into account the constraints on information in financial reports.

Financial Capacity

30. The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost, less depreciation or amortization, and any accumulated impairment losses can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be derived from use of the asset and received on sale of an asset and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current values.

Application of the Qualitative Characteristics

31. Paragraphs (28 - 30) explain the areas where historical cost provides relevant information with confirmatory or predictive value. Application of historical cost is often straightforward because transaction information is usually readily available. As a result, amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that is, the cost to acquire, construct, or develop an asset based on actual transactions. As application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are generally verifiable and understandable and can be prepared on a timely basis.
32. Historical cost information is comparable to the extent that assets have the same or similar acquisition, construction, or development dates. Historical cost does not reflect the impact of price changes, so it is not possible to compare meaningfully the amounts of assets that were acquired, constructed, or developed at different times when prices differed.
33. In certain circumstances, the application of historical cost necessitates the use of allocations—for example where:
- A. Several assets are acquired in a single transaction.
 - B. Assets are constructed or developed by the federal entity itself and overheads and other costs have to be attributed; and
 - C. The use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held.

To the extent that such allocations are arbitrary, they reduce the extent to which the resulting measurement achieves the qualitative characteristics.

Measurement Bases for Assets under the Current Value Model

34. Measurements under the current value model reflect the economic environment prevailing at the reporting date. Depreciation, amortization, and impairment, which are discussed in the context of the historical cost measurement model in paragraphs 26 and 27, are also relevant to current value measurement bases in certain circumstances. Additions and enhancements may affect measurements under current operational value and fair value.

35. Where an asset is used for service provision and also generates economic benefits, a federal entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity and selects the current operational value measurement basis, or the fair value measurement basis based on that analysis. In making such a judgment a federal entity has regard to the appropriate unit of account. Guidance on unit of account is provided in Chapter 5.

Current Operational Value

36. Current operational value is the amount the federal entity would pay for the remaining service potential of an asset at the measurement date.
37. Current operational value presents an entity-specific measurement of an existing asset held for its operational capacity. Current operational value reflects:
- A. The amount the entity would pay for the remaining service potential of the asset in the least costly manner.
 - B. The remaining service potential of the asset taking into account the current condition of the asset.
 - C. The asset's existing use and location.
38. An asset supports a federal entity delivering services in its existing use. 'Existing use' is the way an existing asset is used, rather than an alternative use, and generally reflects the policy objectives of the entity operating the asset. Current operational value therefore assumes that an asset will continue to be used for service delivery rather than being sold.

Cost of Services

39. The cost of services is reported in current terms when based on current operational value. Thus, the amount of assets consumed is related to the value of the assets at the time they are consumed and not, as with historical cost, at the time they were acquired, constructed, or developed. This provides a basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period-which are generally transactions of the current period and measured in current prices-and for assessing whether resources have been used economically and efficiently. It may also provide a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition, construction, or development dates, and for assessing the cost of providing services in the future and future resource needs. This is because future costs are more likely to resemble current costs than those incurred in the past when prices were different.

Operational Capacity

40. Current operational value provides a measure of the resources available to provide services in future periods based on current policy, as it is focused on the current value of assets and their remaining service potential to the entity.

Financial Capacity

41. Current operational value does not provide information on an asset's ability to generate economic benefits or the amounts that would be received on its sale. It therefore may not facilitate an assessment of financial capacity.

Application of the Qualitative Characteristics

42. Current operational value focuses on the amount the federal entity would pay for the remaining service potential of an asset which supports the achievement of a federal entity's policy objectives. Current operational value therefore provides information that is both relevant and faithfully representative.
43. Current operational value information is comparable within a federal entity, as assets that provide equivalent service potential are stated at similar amounts, regardless of when those assets were acquired, constructed, or developed. Different entities may report similar assets at different amounts because current operational value is an entity-specific measure that reflects the opportunities available to the entity to obtain an asset to achieve an entity's policy objectives. These opportunities may be the same or similar for different federal entities. Where they are different, the economic advantage of an entity that is able to acquire, construct or develop assets at lower cost is reported in financial statements through lower asset values and a lower cost of services. This reinforces the ability of current operational value to provide relevant and faithfully representative information. The extent to which current operational value measures meet the qualitative characteristics of timeliness, understandability and verifiability depends on the nature of the asset and the estimation techniques used.

Fair Value

44. Fair value for an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.
45. Fair value is appropriate where the asset is being held primarily for its ability to generate economic benefits or with a view to sale. The extent to which fair value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded.
46. In principle, fair value measurements provide useful information because they fairly reflect the value of the asset to the entity. In an orderly market (see paragraph 48), the asset cannot be valued at less than fair value, as, disregarding transaction costs, the entity can obtain at least fair value by selling the asset. The asset cannot be valued at more than fair value, as the

entity can obtain the same ability to generate economic benefits by purchasing the same or a similar asset in the market.

47. The usefulness of fair value may be more questionable when the assumption that markets are orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired. Although the purchase of an asset provides evidence that the value of the asset to the entity is at least equal to its purchase price at that time, operational factors may mean that the value to the entity may be greater. Hence, fair value may not reflect the value to the entity of the asset, represented by its operational capacity. Therefore, fair value may not be useful for operational assets that an entity intends to continue to use for service delivery.

Orderly Markets

48. Orderly markets have the following characteristics:

- A. There are no barriers that prevent the federal entity from transacting in the market.
- B. There is sufficient frequency and volume of transactions to provide price information; and
- C. There are many well-informed buyers and sellers acting without compulsion, so there is an assurance of "fairness" in determining current prices-including that prices do not represent distress sales.

An orderly market is one that is run in a reliable, secure, accurate and efficient manner. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies, and securities where prices are publicly available. In practice few markets, if any, fully exhibit all of these characteristics, but some may approach an orderly market.

Fair Value where Markets Cannot be Assumed to be Orderly.

49. Markets for assets that are unique and rarely traded are unlikely to be orderly, any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. Where markets are not orderly, it is necessary to use a measurement technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. Such measurement techniques require inputs that are directly or indirectly observable, where possible, or unobservable where observable inputs cannot be identified.
50. Fair value permits a return on assets to be reported. However, entities do not generally carryout activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidized terms. Consequently, there may be limited relevance in a reported return derived from fair value.

Cost of Services

51. Fair value reflects the asset's ability to generate economic benefits, and the price expected to be received on sale. Therefore, when an asset is primarily held for its operational capacity, fair value provides less useful information for the cost of services than current operational value, which can reflect the value of an asset in its existing use.

Operational Capacity

52. The usefulness of information on the fair value of assets held to provide services is limited. If fair value is significantly lower than historical cost, fair value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity. Fair value is also likely to be less relevant than current operational value, as the highest and best financial use principle that underpins fair value is inappropriate for assets primarily held for operational capacity.

Financial Capacity

53. An assessment of financial capacity requires information on an asset's ability to generate economic benefits and the amount that would be received on sale of an asset. This information is provided by fair value. Fair value is therefore an appropriate measurement basis where assets are held for sale or where assets previously held for their operational capacity are surplus to operational requirements.

Application of the Qualitative Characteristics

54. Values determined in orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. As such information can be available quickly, it is also likely to be timely.
55. The extent to which fair value measurements meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, fair value is only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity.

Value in Use

56. Value in use is applicable for assessments of impairment. Impairment testing involves determining whether the amount at which an asset is stated on the statement of financial position is recoverable.
57. Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its sale at the end of its useful life. This requires the discounting of cash flows to a present value.
58. Value in use of a non-cash-generating asset is the asset's remaining service potential at the measurement date. The estimation of service potential requires the use of techniques, which are dependent on the nature of the asset and, because of its applicability to impairment, the indicator of impairment.

59. Value in use for cash-generating assets is complex and subjective, as it requires the projection of cash flows from an entity perspective. Further complexity arises where assets are deployed in combination with other assets. In such cases, value in use can be estimated only by calculating the present value of the cash flows of a group of assets, rather than on an individual basis. Allocations are then made to individual assets. Such allocations may be arbitrary, thereby having an adverse impact on faithful representation.
60. Value in use for non-cash-generating assets is also complex, as it requires entity-specific estimates of an asset's remaining service potential.
61. Paragraph 35 discusses the situation where an asset is used for service provision and also generates economic benefits, noting that an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity, and selects the current operational value measurement basis or the fair value measurement basis accordingly. This factor and the complexity and subjectivity discussed above mean that value in use in both a cash-generating and non-cash-generating context is likely to be applicable only to accounting for losses or reversals of losses related to impairment.

Measurement Bases for Liabilities

62. This section discusses the measurement bases for liabilities. This section does not repeat all the discussion in the section on assets. It considers the following measurement bases:
- A. Historical cost.
 - B. Cost of fulfillment; and
 - C. Fair value

Historical Cost

63. Historical cost for a liability is the consideration received to assume an obligation minus transaction costs, at the time the liability is incurred.
64. Consideration is the cash or cash equivalents, or the value of other consideration given. Under the historical cost model initial measures are adjusted by using a technique to reflect factors such as the accrual of interest, the accretion of a discount or amortization of a premium.
65. Where the time value of a liability is material-for example, where the length of time before settlement falls due is significant-the amount of the future payment is discounted so that, at the time a liability is initially measured, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.
66. Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is unlikely to provide relevant

information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

Cost of Fulfillment

67. Cost of fulfillment is the costs that the federal entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner at the measurement date.
68. Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account to estimate cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.
69. Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage, the relevant costs are those that the federal entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly way of fulfilling the obligation.
70. Where fulfillment will be made by the federal entity itself, the cost of fulfillment does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of fulfillment is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.
71. Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date.
72. Cost of fulfillment is generally relevant for measuring liabilities except in circumstances where the entity- can obtain release from an obligation at an amount lower than the cost of fulfillment.

Fair Value

73. Fair value for a liability is the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.
74. Fair value may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear, the case for fair value is weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions because it is unlikely that there will be an orderly market for such liabilities.



Chapter 8:

Presentation in

General Purpose

Financial Reports

Chapter 8: Presentation in General Purpose Financial Reports

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Introduction

1. This Chapter sets out the concepts applicable to the presentation of information in GPFRs, including financial statements of Federal Government and federal entities.
2. The objectives of financial reporting, users' needs, the qualitative characteristics, constraints on information included in GPFRs and the reporting entity all influence presentation decisions. For information reported in the financial statements, presentation is also linked to the definitions of the elements, recognition criteria and measurement bases for example:
 - A. The definition of the elements affects the items that can be presented in the financial statements.
 - B. Application of the recognition criteria affects the location of information; and
 - C. The selection of measurement bases impacts the information presented on measurement methodologies.

Language in which Financial Statement and Other GPFRs are Issued

3. The language (or languages) in which financial statements and other GPFRs are issued supports achievement of the objectives of financial reporting and the qualitative characteristics. All translated versions need to be faithful to the original language version. The translated version is made available to meet the needs of users with reference to:
 - A. Legal requirements in the federal entity's jurisdiction; and
 - B. Translation costs and benefits.

Presentation

4. Presentation is the selection, location and organization of information that is reported in the GPFRs.
5. Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information about economic or other phenomena.
6. GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. In addition to the financial statements, GPFRs provide information relevant to, for example, assessments of an entity's service performance and the sustainability of its finances. The objectives of financial reporting, applied to the area covered by a particular report, guide presentation decisions for that report.
7. Presentation decisions may:
 - A. Result in the development of a new GPFR, the movement of information between reports, or the amalgamation of existing reports; or

- B. Be detailed decisions on information selection, location and organization within a GPFR.

Presentation Decisions are Interlinked.

- 8. Decisions on information selection, location and organization are interlinked and, in practice, are likely to be considered together. The amount or type of information selected could have implications on whether it is included in a separate report or organized into tables or separate schedules. The following three sections separately focus on each presentation decision.

Information Selection

- 9. Decisions on information selection address what information is reported:

- A. In the financial statements; and
- B. In GPFRs outside the financial statements (other GPFRs).

Objectives and Users of General-Purpose Financial Reporting, explains, the objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes. Chapter 2 describes the types of information that users need to meet the objectives of financial reporting. That description guides decisions on whether particular types of reports are needed. This Chapter focuses on the selection of information to be presented in GPFRs, including financial statements and other reports.

Information Selection-Nature of Information

Nature of Information in Financial Statements

- 10. Users' information needs identified in Chapter 2 underpin information selection for the financial statements. Those needs include information about the financial position, financial performance and cash flows of an entity in order to:
 - A. Enable users to identify the resources of the entity and claims on those resources at the reporting date.
 - B. Inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives; and
 - C. Inform assessments of financial performance and the entity's liquidity and solvency.
- 11. The financial statements may also provide information that assists users in assessing the extent to which:
 - A. An entity has met its financial objectives.
 - B. Revenues, expenses, cash flows and financial results of the entity comply with approved budgets; and

- C. An entity has adhered to relevant legislation or other authority governing the raising and use of public monies.
12. The financial statements do not report comprehensively on an entity's service performance. However, information in the financial statements may provide information relevant to the financial aspects of service performance such as information about:
- A. Revenue, expenses and cash flows related to services; and
 - B. The assets and liabilities that inform users' evaluations of, for example, an entity's operational capacity or financial risks that could impact on service provision.
13. Other reports in GPFRs present information additional to the financial statements. Such information could, for example, include:
- A. Information on the sustainability of an entity's public finances.
 - B. Financial statement discussion and analysis; or
 - C. Service performance information.

Information Selected for Display or Disclosure

14. Information is selected for display or disclosure in GPFRs. Information selected for display communicates key messages in a GPFR, while information selected for disclosure makes displayed information more useful by providing detail that will help users to understand the displayed information. Disclosure is not a substitute for display.
15. Repetition of information in a GPFR needs to be avoided. However, the same information may be both displayed and disclosed. For example, a total displayed on the face of the financial statements may be repeated in the notes, where the notes provide a disaggregation of the displayed total. Similarly, the same information may be presented in different financial reports in order to address their different aims.

Information Selected for Display

16. Every GPFR contains key messages that are communicated, so every GPFR contains displayed information. Displayed information is kept to a concise, understandable level, so that users can focus on the key messages presented and not be distracted by detail that could otherwise obscure those messages. Displayed information is presented prominently, using appropriate presentation techniques such as clear labeling, borders, tables and graphs.
17. The items displayed on the face of the financial statements provide information about such matters as the reporting entity's financial position, financial performance and cash flows.
18. Assessment of whether an item satisfies the recognition criteria is one of the key mechanisms in determining whether information is displayed on the face of the statement of financial position or statement of financial performance and/or disclosed either in the notes or elsewhere in the GPFRs. In other cases, for example a statement of cash flows, displayed information will also support achievement of the objectives of financial reporting.
19. Developing requirements for the display of line items and totals involves balancing the standardization of displayed information, which facilitates understandability, with information that is tailored for entity- specific factors. The aim of both standardized display requirements and entity-specific information is to ensure that information necessary to meet the objectives of financial reporting is available for all entities, while allowing information to be displayed in a manner that reflects the nature and operations of specific entities.

Information Selected for Disclosure

20. Disclosed information is likely to include:
 - A. The basis for the displayed information, such as applicable policies or methodologies.
 - B. Disaggregation of displayed information; and
 - C. Items that share some but not all of the aspects of displayed information-for example disclosures on items that meet some, but not all, of the characteristics of the definition of an element or disclosures on items that meet the definition of an element, but not the recognition criterion.
21. The level of detail provided by disclosed information contributes to achievement of the objectives of financial reporting, without being excessive. Disclosed information, like displayed information, is necessary for achievement of the objectives of financial reporting.
22. Information disclosed in the notes to the financial statements:
 - A. Is necessary to a user's understanding of the financial statements.
 - B. Provides information that presents the financial statements in the context of the federal entity and its operating environment; and
 - C. Generally, will have a clear and demonstrable relationship to information displayed on the face of the financial statement(s) to which it pertains.
23. Information disclosed in the notes may also include:

- A. Federal entity-related factors that could influence judgments about reported information (for example, information about related parties and controlled entities or interests in other entities).
- B. The basis for what is displayed (for example, information on accounting policies and measurement, including measurement methods and measurement uncertainties where applicable).
- C. Disaggregation of amounts displayed on the face of the statements (for example, a break-down of property, plant and equipment into different classes).
- D. Items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity's finances and ability to deliver services- for example, information about events and conditions, that might affect future cash flows or service potential, including their natures, possible effects on cash flows or service potential, probabilities of occurrence, and sensitivities to changes in conditions; and
- E. Information that may explain underlying trends affecting displayed totals.

Principles Applicable to Information Selection

24. Decisions about what information needs to be displayed and disclosed involve consideration of:
- A. The objectives of financial reporting.
 - B. The qualitative characteristics and constraints on information included in GPFRs; and
 - C. The relevant economic or other phenomena about which information may be necessary.
25. Information selection results in information that contributes to meeting the objectives of financial reporting, as applied to the area covered by a particular report and provides the appropriate level of detail. Decisions on information selection involve information prioritization and summarization. Information selection avoids information overload that reduces understandability. Too much information may make it difficult for users to understand the key messages, and consequently undermines achievement of the objectives of financial reporting.
26. Preparers, applying pronouncements and their professional judgment, are responsible for ensuring that information that meets the objectives of financial reporting and achieves the qualitative characteristics is provided in the GPFRs that they prepare.
27. Decisions on information selection require continuing and critical review. Information identified for possible selection is reviewed as it is developed and considered for presentation, with particular reference to its relevance, materiality and cost-benefit, although all the qualitative characteristics and constraints are applied to decisions on information selection. Past decisions may require reconsideration because new information may make existing information requirements redundant with the result that those items no longer achieve the qualitative characteristics and/or the constraints.

28. All material transactions, events, and other items reported are presented in a manner that conveys their substance rather than their legal or other form so that the qualitative characteristics of relevance and representational faithfulness are achieved.
29. The benefits to users of receiving information need to justify the costs to entities of collecting and presenting that information. In making this assessment it is important to consider how individual items impact on the overall view presented and the nature of the information presented. Items that may appear to have little benefit when viewed in isolation could have much greater benefit in contributing to the complete set of information presented.
30. Information needs to be presented on a sufficiently timely basis to enable users to hold management accountable and to inform users' decisions.
31. GPFRs may include additional information derived from sources other than the financial information system. The qualitative characteristics apply to such information. The date of delivery of any such additional information needs to be as close as possible to the financial statements' reporting date, so that reported information will be timely.

Principles for Selection of Information for Display and Disclosure

32. Decisions about display or disclosure apply to both the financial statements and other GPFRs. The objectives of financial reporting are applied to the area covered by a particular report to guide the identification of information for display or disclosure. The identification of information for display and disclosure in a particular financial report may involve the development of:
 - A. Classification principles.
 - B. A list of broad types of information that are displayed and a similar list of broad types of information that are disclosed; and/or
 - C. Lists of specific information that preparers must display or disclose.
33. **Decisions about** selection of information to be displayed and disclosed are made:
 - A. With reference to each other rather than in isolation; and
 - B. To effectively communicate an integrated set of information.
34. Selection decisions with respect to information in other GPFRs are made after carefully considering the relationship of the other financial reports to the financial statements.

Information Location

35. Decisions on information location are made about which:
 - A. Report information is located within; and
 - B. Component of a report information is located.
36. The location of information has an impact on information's contribution to achievement of the objectives of financial reporting and the qualitative characteristics. Location may affect

the way that users interpret information and the comparability of information. Location may be used to:

- A. Convey the relative importance of information and its connections with other items of information.
- B. Convey the nature of information.
- C. Link different items of information that combine to meet a particular user need; and
- D. Distinguish between information selected for display and information selected for disclosure.

Principles for Allocation of Information between Different Reports

37. Factors relevant to decisions about allocating information between the financial statements and another financial report include:
- A. Nature: whether the nature of the information, for example historical versus prospective, supports including the information either in the same or a different GPFR, because of considerations related to, for example, comparability and/or understandability.
 - B. Jurisdiction-Specific: whether jurisdiction-specific factors, such as legal provisions, specify requirements on information location; and
 - C. Linkage: whether or not the additional information envisaged needs to link very closely to information already included in an existing report. The linkages between all information need to be assessed, not only linkages between new and existing information.
38. The factors above, which are expressed from the perspective of adding information to an existing set of information, also apply to considerations of whether the grouping of existing information could be improved, which is discussed in the section on information organization.
39. A separate GPFR may be necessary when:
- A. Additional user information needs, not satisfied by an existing report, are identified; and
 - B. A separate financial report to meet those needs is more likely to achieve the objectives of financial reporting and the qualitative characteristics than including information in an existing report.

Principles for Location of Information within a Report

40. Displayed information is presented prominently, using appropriate presentation techniques—location is one way to achieve this. Information location within a report ensures that displayed information is given appropriate prominence and is not obscured by more detailed and extensive disclosed information.

41. The location of information in the financial statements contributes to communicating a comprehensive financial picture of a federal entity.
42. For the financial statements, displayed information is shown on the face of the appropriate statement, while disclosures are in the notes. Distinguishing displayed information and disclosed information through location ensures that those items that directly relate to communicating matters, such as a federal entity's financial position, financial performance and cash flows, can be highlighted, with furthermore detailed information provided through disclosure in the notes.
43. For other GPFRs, displayed information may either be located separately from disclosed information or located in the same area, but distinguished from disclosed information and given prominence through the use of another presentation technique.

Information Organization

44. Information organization addresses the arrangement, grouping and ordering of information, which includes decisions on:
- A. How information is arranged within a GPFR; and
 - B. The overall structure of a GPFR.
45. Information organization involves a range of decisions including decisions on the use of cross- referencing, tables, graphs, headings, numbering, and the arrangement of items within a particular component of a report, including decisions on item order. How information is organized can affect its interpretation by users.

Nature of Information Relevant to Organization

46. Decisions about the organization of information take into account:
- A. Important relationships between information; and
 - B. Whether information is for display or disclosure.

Types of Relationships

47. Important relationships include, but are not restricted to:
- A. Enhancement.
 - B. Similarity; and
 - C. Shared purpose.
48. Enhancement: information in one place in a GPFR may be enhanced through information provided elsewhere. For example, budget, prospective and service performance information enhances information in the financial statements. Tables and graphs may be used to enhance the understanding of narrative information. Links to information reported outside the financial reports may enhance the understandability of information reported in financial reports.
49. Similarity: a relationship of similarity exists where information reported in one place is based on information reported elsewhere in the GPFRs, and the information either has not been adjusted or has had relatively minor adjustments. For example, if service performance information includes the cost of services, or the value of assets used in different services, then it may be helpful to show how those totals relate to expense and assets reported in the financial statements. Another example is the relationship between the total expense reported against budget and total expense reported in the statement of financial performance. A reconciliation between the two different amounts can enhance users' understanding of an entity's finances.
50. Shared purpose: a relationship of shared purpose exists where information reported in different places contributes to the same purpose. An example is where different statements

and disclosures provide information needed for assessments of accountability for services delivered. Information about

- A. The actual and budgeted cost of different services,
- B. Financial and non-financial resources used in the provision of different services, and
- C. Future provision of different services may be included in different places.

To make the relationship between the information in different places clear, it may be appropriate to organize the information by using techniques such as common headings and referencing.

51. Relationships may exist between information in different:

- A. GPFRs.
- B. Components within a GPFR; and
- C. Parts of a single component.

Grouping of Information

52. The three factors noted in the section on information selection as being applicable to decisions on information location-linkage, nature of information and jurisdiction-specific considerations-also apply to considerations of whether the grouping of existing information could be improved. Decisions on effective grouping of information consider linkages between information sets, the nature of the different information sets, and, to the extent appropriate, jurisdiction-specific factors.

Principles Applicable to Information Organization

53. Information organization:

- A. Supports achievement of the objectives of financial reporting; and
- B. Helps reported information meet the qualitative characteristics.

54. Information organization:

- A. Helps to ensure that key messages are understandable.
- B. Clearly identifies important relationships.
- C. Gives appropriate prominence to information that conveys key messages; and
- D. Facilitates comparisons.

55. Related information is linked through the use of consistent headings, presentation order, and/or other methods appropriate to the relationship and type of information. Where links are to information reported outside the GPFRs it is important that:

- A. Links to information from other sources do not undermine the financial report's achievement of the qualitative characteristics; and
- B. The issuance date of any such linked information is as close as possible to the financial statements' reporting date so that reported information will be timely.

Comparability

56. Information organization takes into account the benefits of consistent presentation over time. Consistent presentation supports users' ability to understand information and facilitates their access to information. It helps to achieve the qualitative characteristic of comparability.

Principles for Information Organization within the Financial Statements

57. Information displayed on the face of the financial statements is usually organized into numeric totals and sub-totals. Its organization provides a structured overview of such matters as the reporting entity's financial position, financial performance and cash flows.
58. For the financial statements, relationships may exist between:
- A. Subsets of displayed amounts or changes in displayed amounts and their impact on a federal entity's financial position, financial performance and/or cash flows.
 - B. Different displayed amounts in different financial statements, which all reflect the impact of a common external event, or contribute together towards an understanding of an aspect of the federal entity's financial position or financial performance; and
 - C. Displayed amounts and related note disclosures that provide information that explains or could otherwise support users' understanding of displayed items.
59. The organization of information in financial statements includes decisions on:
- A. The type and number of statements.
 - B. Disaggregation of totals into meaningful subcategories.
 - C. Ordering and grouping of items displayed within each statement.
 - D. Identification of aggregates (additive and subtractive); and
 - E. Identification of other information for inclusion on the face of the statement.
60. Information disclosed in the notes to the financial statements is organized so that relationships to items reported on the face of the financial statements are clear. The notes are an integral part of the financial statements.

Principles for Organization of Information within Other GPFRs

61. As is the case for the financial statements, information organization in other GPFRs helps to ensure that key messages conveyed by displayed information are understandable. Presentation that clearly identifies important relationships is likely to enhance the extent to which a report:
- A. Meets the objectives of financial reporting; and
 - B. Achieves the qualitative characteristics.
62. Linking related information helps users to find important information. Some information is more understandable when organized into graphs, charts, tables, ratios or key performance

indicators. Other information may be presented more effectively in narrative form. Information organization supports users' understanding of linkages between information within the same financial report.

63. Information organization facilitates comparisons such as making clear when items are similar or dissimilar. Inter-period comparability is facilitated by avoiding changes to the way that information is organized for the same entity from year to year unless such changes enhance relevance and understandability. Inter entity comparisons are facilitated when different federal reporting entities organize the information they present in similar ways.



Section - General Accounting Principles and Bases for Preparing Financial Statements

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to general accounting principles and bases for preparing financial statements of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	November 2020	December 2020	- Guidance related to public sector combination transactions (paragraph 55) has been added in Standard 33 "First-time Adoption of the Accrual Basis". - Guidance related to repurchase right instruments (paragraph 79) has been added in Standard 1 - Presentation of Financial Statements
Third Version	December 2023		Adding Paragraph 74 to Standard 33 "First-time Adoption of the Accrual Basis" related to insignificant exemptions in the Standard "The Effects of changes in foreign exchange rates"
Fifth Version	August 2025		Introducing updates in line with recent amendments to the standards as follows: - Adding guidance to Standard 33 "First-time Adoption of the Accrual Basis" related to Standard 43 "Leases" exemptions which a first-time adopter can benefit from during the transition period - Adding guidance to Standard 33 "First-time Adoption of the Accrual Basis" regarding ineffective exemptions relating to Standard 43 "Leases" stipulations in lease accounting, allowing simplified treatment for short-term, low-value, and modified leases. - Adding guidance to Standard 33 "First-time Adoption of the Accrual Basis" for first-time adopters in assessing the classification and measurement of financial instrument for amortized cost, modified time value of money, prepayment features, and

			retrospective application of the effective interest method. • Adding guidance to Standard 33 "First-time Adoption of the Accrual Basis" outlining first-time adoption requirements for impairment assessments, credit risk evaluation, embedded derivatives, and recognition of expected credit losses • Adding paragraph to Standard 33 "First-time Adoption of the Accrual Basis" requiring first-time adopters to apply specific provisions of Standard 35 "Consolidated Financial Statements" from the date of transition, including treatment of non-controlling interests, and accounting for control-related changes under Standard 44 " Non-current Assets Held for Sale and Discontinued Operations". • Amending paragraph to Standard 1 "Presentation of Financial Statements" to specify items required in the statement of financial performance by Standard 41" Financial Instruments: Recognition and Measurement" and Standard 44 " Non-current Assets Held for Sale and Discontinued Operations". • Adding paragraphs to Standard 1 "Presentation of Financial Statements" to clarify the treatment of reclassification adjustments from net assets/equity to surplus or deficit • Removing the qualitative characteristics of financial statements and constraints from Standard 1 "Presentation of Financial Statements" Introducing updates in line with annual updates as follows: • Adding paragraph to Standard 1 "Presentation of Financial Statements" clarifying the conditions under which a federal entity's right to defer settlement of a liability.

			• Amending paragraphs of Standard 1 "Presentation of Financial Statements" to clarify the classification of liabilities in cases involving refinancing expectations or covenant breaches • Adding paragraph to Standard 1 "Presentation of Financial Statements" allowing classification of liabilities as non-current when deferment is conditional on covenant compliance within twelve months after the reporting date • Adding paragraph to Standard 1 "Presentation of Financial Statements" to clarify the settlement of liabilities.

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to general accounting principles and bases for preparing financial statements, which federal entities adopting the accrual basis for the first time need to follow in order to produce fair and transparent financial statements.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Overview of General Accounting Principles and Bases for Preparing Financial Statements For Federal Government

Federal standards provided for in this document discuss accounting principles to be followed by federal entities in order to ensure the preparation of high-quality financial statements and presentation of transactions and events in the most transparent and accountable manner. This document includes accounting standards relating to the bases for preparation and fair presentation of financial statements of federal entities; by addressing the following main topics:

- A. Guidance for federal entities upon first-time adoption of Federal Government Accrual Accounting Standards (FGAAS) with respect to:
 - ✓ Requirements of recognition, measurement, presentation and disclosure in financial statements;
 - ✓ Permissible exemptions during FGAAS implementation period;
- B. Establishing controls for selecting and changing accounting policies adopted by federal entities in order to enhance the relevance and reliability of financial statements and improve their comparability over time;
- C. Prescribing the accounting treatment resulting from any changes in estimates of certain items or errors, and determining the impact of the same on federal entities' financial statements and comparative information;
- D. Prescribing the components and structure of financial statements and establishing presentation and disclosure requirements to be satisfied in federal entities' financial statements, and qualitative characteristics of the same;
- E. Addressing the bases for presenting cash flows through the cash flow statement and the manner for classifying cash flows based on their source as operating, investing or financing activities;
- F. Assessing events affecting federal entities after financial statements preparation date and determining whether the same are financial statements adjusting or non-adjusting events, and disclosing relevant information which would enhance the transparency and accuracy of financial statements;
- G. Establishing related parties disclosure requirements to help better understand the statements of financial position and financial performance of federal entities and identify the types of transactions carried out between federal entities and related parties;
- H. Establishing the requirements of presentation and disclosure in financial statements in relation to budget information of federal entities budgets of which are publicly available; as federal entities are required to present reconciliations between budgets and actual amounts stated in financial statements and disclose material differences such that federal entities fulfill their duties in terms of accountability and enhance the transparency of their financial statements.

Definitions



The following terms are used in this standard in the following context:

Term	Definition
Events after the Reporting Date	Events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue; even if they occur after: A. Declaration of net surplus or deficit; B. Approval of the financial statements of a controlled entity; C. Publication of any other information related to financial statements. The following two types of events can be identified: A. Events related to conditions that existed at the reporting date (Events upon the occurrence of which federal entities are required to adjust their financial statements even after the reporting date) B. Events related to conditions that arose after the reporting date (events upon the occurrence of which federal entities do not adjust their financial statements even after the reporting date)
Prior Period Errors	Omissions from, and misstatements in, federal entities' financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: A. Was available when financial statements for those periods were authorized for issue; B. Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of the financial statements of those periods. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
Budgetary Basis	The accounting basis adopted in the approved budget.
Comparable Basis	Actual amounts presented on the same accounting basis and same classification basis for the same federal entity and for the same period as the approved budget.

Term	Definition
Accrual Basis	The basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, accounting transactions and events are recorded and recognized in financial statements of the periods to which they relate. Elements recognized under accrual accounting are assets, liabilities, net assets / equity, revenue, and expenses.
Prior Basis of Accounting	Any accounting basis used by federal entities in the preparation of their financial statements prior to implementing Federal Government Accrual Accounting Standards; including: A. Cash basis; or B. Modified cash basis; or C. Modified accrual basis; or D. Any other basis.
Assets	Resources controlled by a federal entity because of past events and from which future economic benefits or service potential are expected to flow to the federal entity.
Related Parties	Any two federal entities are related if one party (A) Has the ability to control the other entity or (B) Exercises significant influence over the other entity in making financial or operating decisions, or if both federal entities are subject to common control. Related parties include: A. Federal entities that directly or indirectly control, or are controlled by, another federal entity; B. Associate federal entities (See FGAAS 36 "Investments in Associates and Joint Ventures"); C. Key management personnel and close members of their families; D. Private establishments in which a substantial ownership interest is held, directly or indirectly, by any person described in (C) or over which such a person can exercise significant influence.
Effective Exemptions	Exemptions which effect on the fair presentation of financial statements and the ability of a first-time adopter to confirm full compliance with Federal Government Accrual Accounting Standards.

Term	Definition
Ineffective Exemptions	Exemptions which do not affect fair presentation of financial statements or the ability of a first-time adopter to confirm full compliance with Federal Government Accrual Accounting Standards.
Close Family Members	Immediate relatives of an individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the federal entity.
Liabilities	Present obligations of federal entities arising from past events, the settlement of which is expected to result in an outflow from federal entities of resources embodying economic benefits or service potential.
Investment Activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.
Operating Activities	The activities of federal entities that are not classified as investing or financing activities.
Financing Activities	Activities that result in changes in the size and composition of the financing and borrowings.
Material Omissions	Material Omissions or misstatements of items are deemed material if they could, individually or collectively, influence the decisions or assessments of users made based on the financial statements. Materiality depends on the nature and size of the omission or misstatement of items judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Assessing whether the omission or misrepresentation of certain items influences the decisions of users and is, therefore, material, requires examination of the characteristics of such users. Users are presumed to have reasonable knowledge of federal entities, economic activities, and accounting, as well as the desire to examine information with a reasonable degree of diligence. Therefore, assessment should consider how the decisions and assessments of users with such characteristics are reasonably expected to be influenced.
First FGAAS Compliant Financial Statements	The first financial statements in which a federal entity is fully compliant with the requirements of recognition, measurement, presentation, and disclosure prescribed in Federal Government Accrual Accounting Standards; such that said financial statements include an explicit and unreserved statement of full compliance with FGAAS.

Term	Definition
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets / equity.
Notes	Information explained in financial statements in addition to those presented in the statement of financial position, statement of financial performance, statement of changes in net assets / equity and cash flow statement. Such information provides explanations, narrative descriptions or analysis of items disclosed in financial statements and information about items that do not qualify for recognition in those statements.
Opening Statement of Financial Position	The Statement of financial position on the date of adoption of Federal Government Accrual Accounting Standards.
Transitional Financial Statements	The financial statements in which a federal entity implements federal Government Accrual Accounting Standards; only without an explicit and unreserved statement of full compliance with said standards due to the use of one or more of the effective exemptions permitted during transition periods which affect fair presentation of financial statements under the accrual basis.
Significant Influence	The power to participate in the financial and operating policy decisions of a certain federal entity; but not to control those policies. Significant influence can be practiced in several ways and is often practiced through representation in the board of directors or similar governing body. Significant influence can also be practiced by participating in: A. The policy making process; B. Transactions of material values between federal entities; C. Interchange of managerial personnel; or D. Dependence on technical information. Significant influence can be achieved by acquiring ownership interest or by virtue of a law or agreement to this effect.
Adoption Date	The date on which a federal entity implements Federal Government Accrual Accounting Standards for the first time. Adoption date starts on the beginning of the reporting period (fiscal year) in which the federal entity adopts said standards and at the end of which it either:

Term	Definition
	A. Presents its financial statements in a manner that is fully compliant with Federal Government Accrual Accounting Standards; or B. Presents transitional financial statements (aimed at full compliance with Federal Government Accrual Accounting Standards by the end of the transition period).
Appropriation	An authorization granted by the legislative body to allocate funds for specific purposes.
Cash Flows	Inflows and outflows of cash and cash equivalents.
Retrospective Application	Applying a new accounting policy to transactions and other events and conditions as if that policy had always been applied.
Prospective Application	Applying a new accounting policy to transactions and other events and conditions occurring after the date as at which the accounting policy is changed and recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change in a manner that affects current and future financial statements.
Retrospective Restatement	Correcting the recognition, measurement, and disclosure of amounts of items of financial statements as if a prior period error had never occurred.
Changes in Accounting Estimate	Adjustment of the carrying amount of an asset or a liability, or the amount of the periodic depreciation of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.
Deemed Cost	An amount used in place of acquisition cost or depreciated cost on a given date.
Distributions to Owners	Future economic benefits or service potential distributed by the federal entity to all or some of its owners, either as a return on investment or as a return of investment.
First-time Adopter	A federal entity implementing Federal Government Accrual Accounting Standards for the first time.
Normal Operating Cycle	The normal operating cycle of a federal entity is the time needed to convert inputs or resources to outputs. In cases where a normal

Term	Definition
	operating cycle cannot be clearly identified, it is presumed to be 12 months.
Oversight	The supervision of the activities of a federal entity by controlling or exercising significant influence over its financial and operating decisions.
Accounting Policies	The specific principles, bases, conventions, rules, and practices adopted by a federal entity in preparing and presenting financial statements.
Net Assets / Equity	The residual interest in the assets of a federal entity after deducting all its liabilities in the statement of financial position. Net assets / equity can have either a positive or negative value. The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests.
Impracticability	Applying a requirement is impracticable when the federal entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if: A. The effects of the retrospective application or retrospective restatement are not determinable; B. The retrospective application or retrospective restatement requires assumptions about what federal entity administration's intent would have been in that period; or C. The retrospective application or retrospective restatement requires significant estimates of amounts, and it is impossible to objectively distinguish information about those estimates that: ✓ Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and ✓ Would have been available when the financial statements for that prior period were authorized for issue.
Related Party Transaction	A transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any federal entity that is a related party solely because of its economic dependence on the reporting entity under this standard or the government of which it is part.

Term	Definition
Transition Period	The period during which the federal entity benefits from one or more transitional exemptions before it fully complies with Federal Government Accrual Accounting Standards.
Economic Entity / Group	A group of federal entities comprising a controlling federal entity and one or more controlled federal entities.
Actual Amounts	A description of amounts that result from execution of the budget.
Contributions from Owners	Future economic benefits or service potential that has been contributed to the federal entity by parties external thereto, other than those that result in liabilities of the federal entity, that establish a financial interest in the net assets / equity of the federal entity, which: A. Conveys entitlement both to distributions of future economic benefits or service potential by the federal entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the federal entity being wound up; and/or B. Can be sold, exchanged, transferred, or redeemed.
Expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or depreciation of assets or incurrences of liabilities that result in decreases in net assets / equity, other than those relating to distributions to owners.
Remunerations of Key Management Personnel	Any consideration or benefit received, directly or indirectly, by key management personnel from the federal entity in return for services rendered thereby in their capacity as persons having the authority and responsibility for planning, directing, and controlling the federal entity or as employees of the federal entity.
Future Economic Benefits or Service Potential	Assets provide a means for federal entities to achieve their objectives, and are divided into: A. Assets the use of which indirectly generates net cash inflows and are described as embodying “service potential”; and B. Assets the use of which directly generates net cash inflows and are described as embodying “future economic benefits”.

Term	Definition
Key Management Personnel	A. All executive directors and officials of the federal entity; including senior management group which includes the Chief Executive Officer or permanent head of the federal entity; B. Any other persons having the authority and responsibility for planning, directing, and controlling the activities of the federal entity. Such persons include: ✓ Any member of the relevant authority at Federal Government level; where such member has the authority and responsibility for planning, directing, and controlling the activities of the federal entity ✓ Any key advisors of said member.
Budget	Estimates developed by a department showing the volume of cash flows expected to be used or expended during a given period and the volume of cash flows expected to be generated during the same period.
Original Budget	The initial approved budget for the budget period.
Annual Budget	An approved budget for one year. It does not include publicly available forward estimates or projections for periods beyond the budget period.
Approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budget period.
Final Budget	The original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative changes applicable to the budget period; or similar official changes.
Multi-year Budget	An approved budget for more than one year. It does not include publicly available forward estimates or projections for periods beyond the budget period.
Cash	Includes cash on hand and cash in banks.
Cash Equivalent	Includes highly liquid investments with 3 months or less maturity periods and are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Management / Federal Entity Management	In this Manual, reference is made to the management in charge of financial operations in the federal entity.

Term	Definition
Governing Body	Includes: A. Federal Supreme Council; B. President and Vice President of the Federal Supreme Council; C. Federal Cabinet; D. Federal National Council; E. Federal Judiciary.



Standard 33 - First-time Adoption of the Accrual Basis

Standard 33 - First-Time Adoption of the Accrual Basis

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 33 (IPSAS 33) which addresses the provision of guidance to federal entities implementing this standard for the first time and preparing their financial statements upon first-time adoption of the Federal Government's Standards for Accrual Basis of Accounting. It is worth mentioning that certain text of standard 33 have been rephrased in line with the requirements of UAE Federal Government.

The Standard for First-Time Adoption of the Accrual Basis - Table of Contents

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Objective

1. The objective of this Standard is to provide guidance to a Federal entity first-time adopter that prepares and presents financial statements following the adoption of accrual basis FGAASs, in order to present high quality information:
 - A. That provides transparent reporting about a first-time adopter's transition to accrual basis FGAASs;
 - B. That provides a suitable starting point for accounting in accordance with accrual basis FGAASs irrespective of the basis of accounting the Federal entity first-time adopter has used prior to the date of adoption; and
 - C. Where the benefits are expected to exceed the costs.

For the purposes of this Standard, Accrual Basis FGAAS may be referred to as "Federal Standards".

2. Basically, this Standard addresses the following topics:
 - Defining the presentation requirements for first-time adopters in accordance with the requirements of Federal Standards;
 - Defining transitional exemptions from recognition and measurement which first-time adopters can benefit from during the phase of transition to the accrual basis in accordance with Federal Standards, which are divided into:
 - ✓ Exemptions that affect fair presentation and compliance with Federal Standards during the period of transition;
 - ✓ Exemptions that do not affect fair presentation and compliance with Federal Standards during the period of adoption of the same.
 - Defining disclosure requirements which first adopters must address in their financial statements prepared using the accrual basis FGAASs.

Scope



3. This Standard applies to federal entities covered by the Manual of Accrual Basis FGAAS as detailed in the Introduction thereto.
4. A federal entity shall apply this Standard during the period of transition to Federal Standards; whether it chooses gradual transition to or complete adoption of Federal Standards in the first year.
5. This Standard shall not apply when, for example, a first-time federal adopter:
 - A. Stops presenting financial statements in accordance with prescribed principles, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with Federal Standards;
 - B. Presents financial statements in the previous period in accordance with prescribed principles and those financial statements contained an explicit and unreserved statement of compliance with Federal Standards; or
 - C. Presents financial statements in the previous period that contained an explicit and unreserved statement of compliance with Federal Standards, even if auditors modify their report on said financial statements.
6. This Standard shall be applied as of the date the first-time federal adopter starts implementing Federal Standards and during the period of transition. This Standard allows first-time adopters of Federal Standards to benefit from exemptions during the period of transition. Considering that said exemption might affect fair presentation of financial statements, the relevant federal entity must disclose information related to said implemented exemptions and progress in the method of implementation, fair presentation of financial statements and full compliance with Federal Standards.
7. At the end of the transitional period a federal entity first-time adopter, which had benefited from exemptions, must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis IPSAS in order to assert compliance with accrual basis FGAASs.
8. This Standard shall not apply to changes in accounting policies made by a federal entity that already applies Accrual Basis FGAAS; Such changes are the subject of:
 - A. Requirements on changes in accounting policies in accordance with Accrual Basis FGAAS 3 regarding accounting policies, changes in accounting estimates and errors; and
 - B. Specific transitional requirements in other Federal Standards. The transitional provisions in other FGAASs apply only to changes in accounting policies made by an entity that already applies accrual basis FGAASs; they do not apply to a first-time adopter's transition to FGAASs, except as specified in this FGAAS.

Financial Statements of First-Time Adopters

First Accrual Basis FGAAS Compliant Financial Statements



9. A Federal entity's first FGAAS financial statements are the first annual financial statements in which the first-time federal entity adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis FGAASs. If a first-time adopter does not adopt the exemptions in this FGAAS that affect fair presentation and compliance with accrual basis FGAASs (see paragraphs 27 - 54), its first financial statements following the adoption of accrual basis FGAASs will also be its first FGAAS financial statements. the financial statements of a federal entity can still be deemed the first Federal Standards compliant statements if they benefit from the ineffective exemptions provided for in paragraphs (55 - 114).

Transitional Financial Statements Prepared in Accordance with Accrual Basis FGAAS

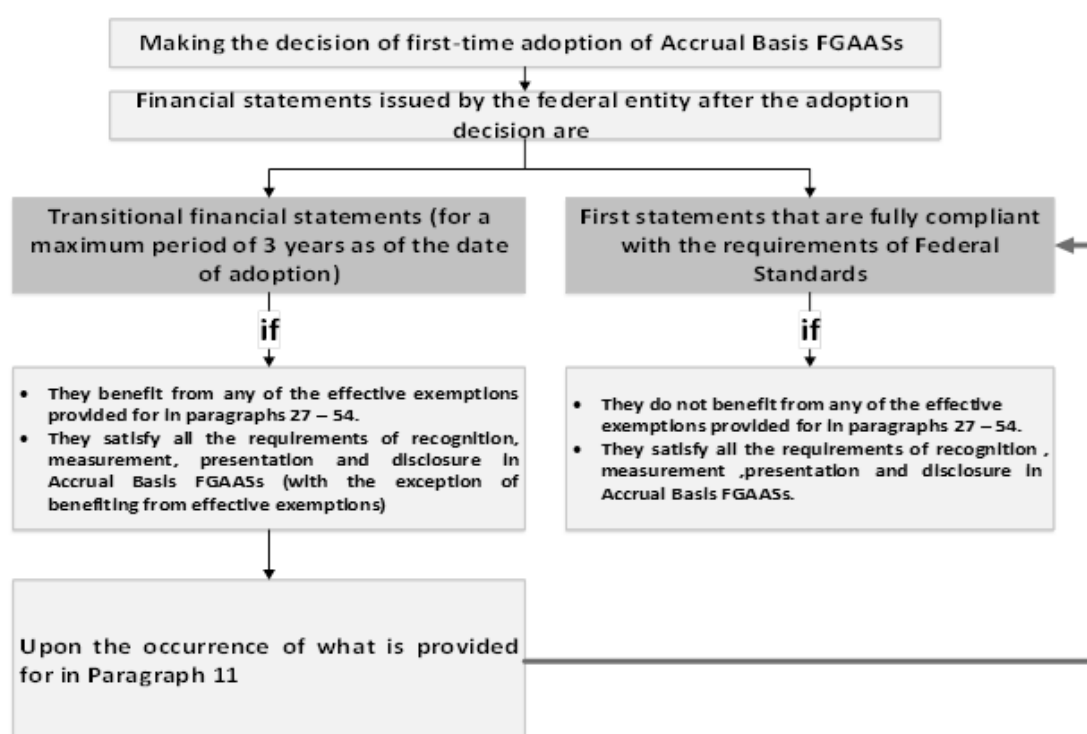


10. Transitional financial statements are the annual financial statements prepared by a first-time federal adopter benefiting from some exemptions that affect fair presentation of financial statements and federal entity's ability to fully implement Federal Standards.
11. Based on the above, financial statements cannot contain an explicit and unreserved statement of full compliance with the requirements of Federal Standards until any of the following occurs (whichever is earlier):
 - A. Effective exemptions have expired; and/or
 - B. Relevant items are recognized and measured and/or relevant information is presented and disclosed in accordance with Federal Standards.

Financial statements shall not be described as complying with FGAASs unless they comply with all the requirements of all the applicable FGAASs.

12. Transitional financial statements are the financial statements in which a federal entity transitions from any other accounting basis to adopting Federal Standards; as (for example) in the following cases:
 - A. A federal entity prepares its most recent previous financial statements as follows:
 - ✓ In accordance with prescribed principles that do not fully comply with Federal Standards in all respects;
 - ✓ In accordance with Federal Standards, but the financial statements do not contain an explicit and unreserved statement of compliance with Federal Standards;
 - ✓ Containing an explicit and unreserved statement of compliance with some, but not all, requirements of Federal Standards by benefiting from exemptions that affect fair presentation of financial statements and the entity's ability to fully implement Federal Standards;
 - ✓ In accordance with prescribed principles that are inconsistent with Federal Standards using some individual Federal Standards to account for items without prescribed principles; or

- ✓ In accordance with prescribed principles with a reconciliation of some amounts to the amounts determined in accordance with FGAAS.
 - B. Prepares financial statements in accordance with Federal Standards for internal use only; without making the same available for external users;
 - C. Prepares a reporting package in accordance with Federal Standards for the purpose of preparing consolidated financial statements without preparing a complete set of financial statements as defined in FGAAS 1 "Presentation of Financial Statements"; or
 - D. Does not present financial statements for previous periods.
13. The following diagram presents a simple illustration of first-time adoption of Federal Standards in accordance with this Standard.



Recognition and Measurement

Opening Statement of Financial Position



14. A first-time federal adopter of Federal Standards shall prepare an opening statement of financial position at the date of adoption of FGAASs. This is the starting point for its accounting in accordance with accrual basis FGAASs.

Accounting Policies



15. A first-time Federal adopter shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in paragraphs (31 - 114). The accounting policies shall comply with each FGAAS effective at the date of adoption, except as specified in paragraphs (31 - 114).

16. A first-time adopter that takes advantage of the exemptions provided for in paragraphs (31 - 114) shall amend its accounting policies once:
- A. The period of effective exemptions has expired; and/or
 - B. Relevant items are recognized and measured and/or relevant information is presented and disclosed in accordance with Federal Standards (whichever is earlier).
17. A first-time adopter shall adopt the Federal Standards applicable on the date of adopting the same and may adopt an individual issued Federal Standard that is not yet mandatory if early adoption of the same is permitted. A first-time adopter shall also adopt any new Federal Standard that becomes effective during the period of transition.
18. Except as described in paragraphs (31 - 114), a first-time adopter shall, in its opening statement of financial position:
- A. Recognise all assets and liabilities whose recognition is required by Federal Standards.
 - B. Not recognize items as assets or liabilities if Federal Standards do not permit such recognition;
 - C. Reclassify items that are recognized and classified in accordance with the previous basis of accounting as one type of assets or liabilities or an item of net assets / equity due to different classification of the same under Federal Standards.
 - D. Apply Federal Standards in measuring all recognized assets and liabilities.
19. The accounting policies that a first-time adopter uses may differ from those used at the end of the previous period under its previous basis of accounting, which leads to certain adjustments arising from transactions or other events or circumstances before the date of adoption. Therefore, a first-time adopter shall recognize those adjustments to the opening balance of accumulated surplus or deficit in the current period (or, if appropriate, another category of net assets/equity).
20. This Standard shall cover all exemptions and transitional provisions that a first-time adopter is required to comply with.

Estimates



21. Estimates of a first-time adopter shall, on the date of adoption, be consistent with the estimates used when adopting the previous basis of accounting (after adjustments to reflect differences between accounting policies); unless there is objective evidence that said estimates are inconsistent with the requirements of Federal Standards.
22. A first-time adopter may receive information after the date of adoption about estimates that it had made under its previous basis of accounting. Therefore, a first-time adopter shall treat said information in the same way as non-adjusting events after the reporting period in accordance with the Accrual Basis FGAAS 14 "Events after the Reporting Period".

23. A first-time adopter may need to make estimates in accordance with Federal Standards on the date of adoption or during the period of transition that were not required under the previous basis of accounting. In order to comply with Accrual Basis FGAAS 14 "Events after the Reporting Period", estimates made in accordance with Federal Standards shall reflect conditions that existed on the date of adoption or during the period of transition. In particular, estimates made on the date of adoption or during the period of transition with respect to market prices, interest rates or foreign exchange rates shall reflect market conditions on said date. For non-financial assets; such as property, plant and equipment; estimates about the asset's useful life, residual value or condition shall reflect federal entity's management's expectations and judgments as on the date of adoption or during the period of transition.

Fair Presentation and Compliance with Accrual Basis FGAAS



24. The first financial statements prepared by a first-time adopter in accordance with Federal Standards shall fairly present the financial position, financial performance and cash flows of the federal entity. Fair presentation requires faithful representation of the effects of transactions and other events and conditions in accordance with the definition and principles of recognition of assets, liabilities, revenues and expenses set forth in Federal Standard.
25. A first-time adopter shall claim full compliance with the requirements of Federal Standards only when it has fully complied with all the requirements of Federal Standards effective on that date. If a first-time adopter adopts one or more of the exemptions provided for in paragraph (27 - 54), the fair presentation of financial statements and federal entity's ability to assert that its financial statements are fully compliant with Federal Standards will be affected. A federal entity that its financial statements fully comply with the requirements of Federal Standards shall ensure that information is presented in a way that suits the qualitative characteristics provided for in Accrual Basis FGAAS 1 "Presentation of Financial Statements" and that its financial statements contain an explicit and unreserved statement of full compliance with Federal Standards. Financial statements shall not be described as complying with Accrual Basis FGAAS unless they comply with all the requirements of Federal Standards; otherwise, deeming the same compliant with Federal Standards shall be subject to reservation.
26. A first-time adopter shall assess the impact of benefiting from exemptions on fair presentation of financial statements and its ability to assert that its financial statements are compliant with Federal Standards; by considering all relevant facts and circumstances prior to benefiting from those exemptions.

Example 33.1 - Assessing the impact of benefiting from the exemptions on fair presentation of financial statements and compliance of the same with Federal Standards

The Ministry of Labor (a first-time adopter) decided to use the three-year exemption which allows it not to recognize and not to measure revenues from fines imposed on delay in



Example 33.1 - Assessing the impact of benefiting from the exemptions on fair presentation of financial statements and compliance of the same with Federal Standards

obtaining or renewing work permits; due to the lack of credible information about the value of issued or cancelled fines or settlements made with offenders. Therefore, this exemption period shall not apply to any other category of revenues from non-exchange transactions carried out by the Ministry.

The Ministry assessed the impact of benefiting from the exemption and determined that the value of delay fines is immaterial to financial statements as a whole and concluded that, despite adopting said exemption, it will not affect fair presentation of financial statements or the Ministry's ability to assert compliance with Federal Standards. As a result, the Ministry of Labor is able to fairly present its financial statements and assert their compliance with Federal Standards despite benefiting from exemption as on the date of adoption or during the period of transition.

Exemptions that Affect Fair Presentation and Compliance with Federal Government Accrual Accounting Standards during the Period of Transition

Effective Exemptions	
Exemptions Nature	The Ministry assessed the impact of benefiting from the exemption and determined that the value of delay fines is immaterial to financial statements as a whole and concluded that, despite adopting said exemption, it will not affect fair presentation of financial statements or the Ministry's ability to assert compliance with Federal Standards. As a result, the Ministry of Labor is able to fairly present its financial statements and assert their compliance with Federal Standards despite benefiting from exemption as on the date of adoption or during the period of transition.
Exemption Period	Maximum period of three years starting on the date of adoption of Federal Standards.

27. The following table presents a summary of effective exemptions discussed in paragraphs 28 - 54 which a first-time adopter can benefit from during the transition period.

Items	Standard No.	Type of Exemption for First-time Adopter (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date) (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date)	Paragraph No.
Assets and/or Liabilities			
Property, Plant and Equipment	17	The possibility to benefit from non-recognition and/or non-measurement of property, plant and equipment	31
Investment Property	16	The possibility to benefit from non-recognition and/or non-measurement of investment property	31
Intangible Assets	31	The possibility to benefit from non-recognition and/or non-measurement of intangible assets	31
Agriculture	27	The possibility to benefit from non-recognition and/or non-measurement of biological assets and agricultural produce	31
Service Concession Arrangements: Grantor	32	The possibility to benefit from non-recognition and/or non-measurement of assets and liabilities related to service provision contracts	31
Items	Standard No.	Type of Exemption for First-time Adopter (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date) (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date)	Paragraph No.

Items	Standard No.	Type of Exemption for First-time Adopter (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date) (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date)	Paragraph No.
Assets and/or Liabilities			
Inventories	12	The possibility to benefit from non-recognition and/or non-measurement of inventory	31
Financial Instruments	41	The possibility to benefit from non-recognition and/or non-measurement of financial instruments	31
Employee Benefits	39	The possibility to benefit from non-recognition and/or non-measurement of liabilities related to defined employee benefit plans and long-term employee benefit plans, and associated assets	31-32
Revenue from Non-exchange Transactions			
Revenue from Non-exchange Transactions	23	Under Federal Standard 23, it is possible to benefit from non-recognition and/or non-measurement of revenue from non-exchange transactions; as a first-time adopter is not required to change its accounting policy relating to recognition and/or measurement of revenue from non-exchange transactions.	37-38
Miscellaneous Items			
Borrowing Costs	5	The possibility to benefit from non-capitalisation of borrowing costs; provided that the first-time adopter had also benefited from exemptions related to relevant assets acquisition of which was financed through borrowing.	39-40

Items	Standard No.	Type of Exemption for First-time Adopter (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date) (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date)	Paragraph No.
Leases	43	Where a first-time adopter is a lessee no recognition and/or measurement of lease liability and right-of-use asset if relief period for recognition and/or measurement of assets is adopted. Identification of a lease based on circumstances at adoption of accrual basis FGAAS.	41-42
Provisions, Contingent Liabilities and Contingent Assets	19	The possibility to benefit from non-recognition and/or non-measurement of liabilities arising from estimated initial costs of dismantling and removing assets and restoring the site to original state; if the entity decides to benefit from exemptions regarding recognition of property, plant and equipment	43-44
Related Party Disclosures	20	The possibility to benefit from non-disclosure of related party relations, related party transactions and information related to key management personnel in financial statements.	45-46
Separate Financial Statements	34	A first-time adopter which does not recognise investments in controlled entities, associates or joint ventures in accordance with its previously adopted accounting basis, is not required to recognise and/or measure said investments. Therefore, the entity is not required to change its accounting policy related to recognition and/or measurement of investments in controlled entities, associates or joint ventures.	47
Consolidated Financial Statements	35	A first-time adopter is not required to make adjustment entries related to writing off all balances, transactions, revenues and expenses between controlled entities of the economic entity.	48-50

Items	Standard No.	Type of Exemption for First-time Adopter (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date) (Maximum Transition Period of 3 Years as of the Federal Standards Adoption Date)	Paragraph No.
Investments in Associates and Joint Ventures	36	Upon adopting the equity method, a first-time adopter (being the investor) is not required to write off its share of the surplus or deficit resulting from upstream and downstream transactions between the investor and associates or joint ventures.	51-54

28. A first-time adopter may use effective exemptions discussed in paragraphs 27 - 56. Said exemptions affect fair presentation of financial statements and first-time adopter's ability to confirm full compliance with Federal Standards during the transition period pursuant to paragraphs 24 and 25. Said exemptions may not be similarly applied to other items.
29. Although this standard allows benefiting from exemptions prescribed in paragraphs 27 - 56, it is better for a first-time adopter to fully apply all the requirements of Federal Standards.
30. A first-time adopter is not required to apply presentation and/or disclosure requirements in Federal Standards so long as it decides to benefit from the exemptions prescribed in paragraphs 27 - 56 relating to said standards. This shall remain possible until any of the following occurs (whichever is earlier):
 - A. The period for benefiting from effective exemptions expires; and/or
 - B. Relevant items are recognized and/or measured in financial statements in accordance with applicable Federal Standards.

Three-year Transition Period

Assets and/or Liabilities Recognition and/or Measurement Exemptions



31. When a first-time adopter does not recognise assets and/or liabilities in accordance with the previous accounting basis, it is not required to recognise and/or measure the following assets and/or liabilities for reporting periods of three years following the adoption date:
 - A. Inventories, see Accrual Basis FGAAS 12 "Inventories";
 - B. Investment property, see Accrual Basis FGAAS 16 "Investment Property";
 - C. Property, plant and equipment, see Accrual Basis FGAAS 17 "Property, Plant and Equipment";
 - D. Defined and other long-term employee benefit plans, see Accrual Basis FGAAS 39 "Employee Benefits";
 - E. Biological assets and agricultural produce, see Accrual Basis FGAAS 27 "Agriculture";
 - F. Intangible assets, see Accrual Basis FGAAS 31 "Intangible Assets";
 - G. Right-of-use assets and the related lease liabilities (see FGAAS 43 "Leases");
 - H. Assets and liabilities related to service concession arrangements, whether in accordance with the financial liability model or grant of right to the operator model, see Accrual Basis FGAAS 32 "Service Concession Arrangements: Grantor";
 - I. Financial Instruments, see Accrual Basis FGAAS 41 "Financial Instruments". ;
 - J. Social Benefits, see Accrual Basis FGAAS 42 "Social Benefits".
32. When a first-time adopter uses the exemption prescribed in paragraph 31/ D relating to defined and other long-term employee benefit plans, it is required to recognise the liability and any assets of a relevant plan; at the same time.

33. If a first-time adopter recognises the assets and liabilities provided for in paragraph 31 in accordance with the previous accounting basis, it is not required to change its accounting policy(s) with respect to recognizing said assets and liabilities for reporting periods within three years as of the date of adopting the Federal Standards.
34. The purpose of transitional exemptions prescribed in paragraphs 31 and 33 is to grant the first-time adopter time to develop reliable models for recognizing and/or measuring its assets and/or liabilities during the transition period. The first-time adopter may, during the transition period, adopt accounting policies relating to the recognitions and/or measurement of said assets and/or liabilities that are incompliant with other Federal Standards.
35. Subject to the provisions of paragraphs 31 and 33, the first-time adopter can change its accounting policies during the transition period so that they become more compliant with accrual accounting policies under Federal Standards, and can maintain its accounting policies until the transitional exemptions period expires or it recognises and/or measures relevant items in financial statements in accordance with applicable Federal Standards (whichever is earlier). The first-time adopter can change its accounting policies related to the recognition and/or measurement of assets and/or liabilities on the basis of classes or groups wherever the use of such classes or groups is permitted under applicable Federal Standards.
36. To the extent a first-time adopter benefits from the exemptions prescribed in paragraphs from 31 to 33 which allow three-year transitional exemptions enabling the entity not to recognise and/or measure financial assets, said first-time adopter is not required to recognise and/or measure any relevant revenues with respect to Accrual Basis FGAAS 9 "Revenue from Exchange Transactions", any receivables paid in cash or any other financial assets with respect to Accrual Basis FGAAS 23 "Revenue from Non-exchange Transactions"

Recognition and/or Measurement of Revenue from Non-exchange Transactions



37. A first-time adopter is not required to change its accounting policies related to the recognition and/or measurement of revenue from non-exchange transactions for periods which begin within three years as of the adoption date. A first-time adopter may change its accounting policy related to revenue from non-exchange transactions on a class-by-class basis .
38. The transitional provision in paragraph 37 is intended to allow a first-time adopter time to develop reliable models for recognizing and/or measuring revenue from non-exchange transactions in accordance with Accrual Basis FGAAS 23 "Revenue from Non-exchange Transactions" during the transition period. The first-time adopter may adopt accounting policies relating to the recognitions and/or measurement of revenue from non-exchange transactions that are incompliant with the Accrual Basis FGAAS 23 regarding revenue from non-exchange transactions. Transitional exemptions allow a first-time adopter to apply the Accrual Basis FGAAS 23 "Revenue from Non-exchange Transactions" incrementally to various classes of revenue from non-exchange transactions.



Example 33.2 - Applying the Accrual Basis FGAAS 23 “Revenue from Non-exchange Transactions” on a class-by-class basis

Supplement to Example 33.1

The Ministry of Labor can recognise and measure revenue from non-exchange transactions resulting from the receipt of grants allocated therefor as per its budget from the Ministry of Finance, using the accrual basis in accordance with the Accrual Basis FGAAS 23 “Revenue from Non-exchange Transactions” as of the Federal Standards adoption date. However, it can take the Ministry of Labor three years to fully develop a reliable model for recognizing fines imposed on the delay in obtaining or renewing the work permits referred to in Example 33.1.

Other Exemptions*FGAAS 5 “Borrowing Costs”*

39. When a first-time adopter takes advantage of the effective exemptions prescribed in paragraph 31, it is not required to capitalise borrowing costs on relevant assets the borrowing costs capitalisation start date of which is prior to the adoption date, until the exemption period expires and/or relevant assets are recognized and/or measured in accordance with Federal Standards (whichever is earlier).
40. In accordance with what is provided for in paragraph 31 and explained in paragraph 39, if a first-time adopter decides to take advantage of effective exemptions related to delaying the recognition and/or measurement of assets for a maximum period of three years as of the adoption date, said first-time adopter is not required to capitalise relevant borrowing costs during the exemption period. This can apply to the following assets:
 - A. Investment property, see Accrual Basis FGAAS 16 “Investment Property”;
 - B. Property, plant and equipment, see Accrual Basis FGAAS 17 “Property, Plant and Equipment”;
 - C. Biological assets and agricultural produce, see Accrual Basis FGAAS 27 “Agriculture”;
 - D. Intangible assets, see Accrual Basis FGAAS 31 “Intangible Assets”;
 - E. Assets related to service concession arrangements, see Accrual Basis FGAAS 32 “Service Concession Arrangements: Grantor”.

FGAAS 43 “Leases”

41. When a first-time adopter takes advantage of effective exemptions, it is not required to apply the requirements of leases until the exemption period expires and/or relevant assets are recognized in accordance with the requirements of applicable Federal Standards (whichever is earlier).
42. In accordance with what is provided for in paragraph 31 and explained in paragraph 41, in the event a first-time adopter decides to take advantage of effective exemptions relating to delaying the recognition and/or measurement of assets for a maximum period of three years

as of the adoption date, said first-time adopter is not required to recognise lease assets and/or liabilities during the exemption period. This can apply to the following assets:

- A. Investment property, see Accrual Basis FGAAS 16 "Investment Property";
- B. Property, plant and equipment, see Accrual Basis FGAAS 17 "Property, Plant and Equipment";
- C. Biological assets and agricultural produce, see Accrual Basis FGAAS 27 "Agriculture";
- D. Intangible assets, see Accrual Basis FGAAS 31 "Intangible Assets";
- E. Assets and liabilities related to service concession arrangements, whether in accordance with the financial liability model or grant of right to the operator model, see Accrual Basis FGAAS 32 "Service Concession Arrangements: Grantor".

FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets"



43. When a first-time adopter takes advantage of the effective exemptions prescribed in paragraph 31 relating to delaying the recognition of property, plant and equipment for a maximum period of three years as of the adoption date, it is not required to recognise and/or measure the liability arising from estimated initial costs of dismantling and removing the asset and restoring the site to its original state (hereinafter referred to as "Dismantling and Removal Costs") during the maximum exemption period of three years relating to delaying the recognition of property, plant and equipment.
44. In addition to what is provided for in paragraph 43, Federal Standard 17 "Property, Plant and Equipment" requires the federal entity to add dismantling and removal costs to asset costs and in the event the first-time adopter takes advantage of the effective exemption prescribed in paragraph 31 which allows non-recognition of the asset for a transitional period of up to three years, said first-time adopter is not required to recognise the assets and liabilities arising from dismantling and removal costs related to the same asset until the transition period expires and/or the first-time adopter recognises and/or measures the relevant asset in accordance with the requirements of Federal Standard 17 "Property, Plant and Equipment" (whichever is earlier). Upon taking advantage of the exemption prescribed in paragraph 43, the first-time adopter is required to recognise and/or measure the liability and any asset associated therewith at the same time.

FGAAS 20 "Related Party Disclosures"



45. A first-time adopter is not required to disclose related party relations, related party transactions and information related to key management personnel in reporting periods which begin on a specific date within three years as of the adoption date.
46. Notwithstanding the transitional exemption discussed in paragraph 45, the standard encourages first-time adopters to disclose related party relations, related party transactions and information related to key management personnel if said information is available on the date of adoption.

FGAAS 34 "Separate Financial Statements"



47. Where a first time adopter had not previously recognized its investments in controlled entities, associates and joint ventures, it is not required to recognise and/or measure said investments for reporting periods beginning on a specific date within three years as of the date of adoption. The purpose of this transition period is to grant the first-time adopter the time needed to properly identify and classify its investments in other entities, either as controlled entities, associates or joint ventures.

FGAAS 35 "Consolidated Financial Statements"

48. (Subject to paragraph 47), a first-time adopter is required to present consolidated financial statements in the period following its adoption of Federal Standards. A first-time adopter is not required to make adjustment entries related to writing off all balances, transactions, revenues and expenses exchanged between controlled entities of the economic entity for reporting periods beginning on a specific date within three years of the date of adoption, unless the information is clearly available on the adoption date; so as to be fully compliant with the requirements of Federal Standard 35 "Consolidated Financial Statements".
49. On adoption of the Federal Standards, a federal entity may have controlled entities with which it may have a significant number of transactions. Therefore, it may be difficult for the controlling federal entity to identify said transactions in order to write them off for consolidated financial statements purposes. Therefore, the exemptions prescribed in paragraph 48 would help the first-time adopter have a maximum period of three years as of the date of adoption to make adjustment entries aimed at writing off all balances, transactions, revenues and expenses exchanged between controlled entities of the economic entity.
50. When a first-time adopter takes advantage of the exemptions prescribed in paragraphs 47 and/or 48, it is not required to present its financial statements as consolidated financial statements until any of the following occurs (whichever is earlier):
- A. The exemption period expires and/or investments are accurately recognized and/or measured; if the same are controlled entities, associates or joint ventures; or
 - B. All balances, transactions, expenses and revenues between entities which are part of the economic entity are written off.

FGAAS 36 "Investments in Associates and Joint Ventures"

51. When a first-time adopter adopts the equity method in applying Federal Standard 36 "Investments in Associates and Joint Ventures", the investor is not required to write off its share of the surplus or deficit resulting from upstream and downstream transactions between the investor and associates or joint ventures for reporting periods which begin on a specific date within three years as of the date of adoption.
52. On adoption of Federal Standards, a first-time adopter may have investments in one or more associates or joint ventures with a significant number of upstream and downstream transactions between the investor and its investments. For this reason, it may be difficult for the first-time adopter to identify some of said upstream and/or downstream transactions

such that it is impossible for the investor to write off its investment's share of surplus or deficit upon adopting the equity method. Therefore, the transitional period would help the first-time adopter (the investor) have sufficient time (for a maximum of three years as of the date of adoption) to fully write off its share of surplus or deficit in associates or joint ventures resulting from upstream and/or downstream transactions.

53. Notwithstanding the exemption prescribed in paragraph 51, the standard encourages the first-time adopter to write off its share in associates' or joint ventures' surplus and deficit resulting from upstream and downstream transactions that are known on the date of adoption, in order to fully comply with the requirements of FGAAS 36 "Investments in Associates and Joint Ventures" as soon as possible.
54. When a first-time adopter takes advantage of the exemptions prescribed in paragraphs 47 and/or 51, it is not required to present its financial statements which include investments in associates or joint ventures calculated using the equity method until any of the following occurs (whichever is earlier):
 - A. The exemption period expires and/or investments are accurately recognized and/or measured; whether the same are associates or joint ventures; or
 - B. First-time adopter's share in the associate's surplus or deficit resulting from upstream and downstream transactions between the investor and said associate is written off.

FGAAS 40 "Business Combinations"



55. Where a first-time adopter applies the exemptions that have an effect which allows a three-year transitional relief period to not recognize and/or measure assets and/or liabilities, the first-time adopter may be a party to a business combination during that three-year transitional relief period. Where a first-time adopter applies the mentioned exemptions, it shall not recognize goodwill in respect of an acquisition. The first-time adopter shall recognize the difference between (A) and (B) below in net assets/equity:
 - A. The aggregate of:
 - i. Any consideration transferred;
 - ii. Any non-controlling interests in an acquired operation; and
 - iii. Any previously held equity interests in an acquired operation.
 - B. The net amounts of any identifiable assets acquired, and the liabilities assumed.

Exemptions that do not Affect Fair Presentation and Compliance with Federal Government Accrual Accounting Standards during the Adoption Period



56. A first-time adopter is required or may elect to take advantage of the exemptions prescribed in paragraphs 57 - 114. These exemptions will not affect the fair presentation of a first-time adopter's financial statements and its ability to assert its financial statements' compliance with Federal Standards during the period of transition. A first-time adopter shall not apply these exemptions by analogy to other items.

Using Deemed Cost to Measure Assets and/or Liabilities

57. A first-time adopter may elect to measure the following assets and/or liabilities at fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:
- A. Inventories, FGAAS 12;
 - B. Investment property, FGAAS 16;
 - C. Right-of-use assets, FGAAS 43;
 - D. Property, plant and equipment, FGAAS 17;
 - E. Intangible assets other than those internally generated, FGAAS 31, which satisfy recognition principles prescribed in FGAAS 31 (excluding the principle of reliable measurement);
 - F. Financial instruments, see FGAAS 41; or
 - G. Service concession assets, see FGAAS 32.
58. Deemed cost can only be determined where the cost of acquisition of the asset or incurrence of the liability is not available. Deemed cost assumes that the federal entity had recognized the asset and/or liability at the given date. Subsequent depreciation or amortization is based on the deemed cost of the asset assuming that the acquisition cost is equal to the deemed cost. For example, a first-time adopter may elect to measure property, plant and equipment at deemed cost on the date of adoption of Federal Standards because information about the cost of said assets was not available on that date, and; therefore; consider fair value as deemed cost of the same on that date. Any subsequent depreciation is calculated based on the fair value determined on that date and starts from the date deemed cost of said assets was determined.
59. The use of deemed cost is not considered a form of revaluation or application of fair value model for subsequent measurement in accordance with other Federal Standards.
60. A first-time adopter may elect to use the revaluation amount of property, plant and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:
- A. Fair value; or
 - B. Cost or depreciated cost, where appropriate and compliant with Federal Standards, adjusted to reflect, for example, changes in the general or specific price index.
61. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant and equipment by measuring it at fair value on one particular date because of a specific event:
- A. If the fair value measurement date is at or before the date of adoption of the Standards; in which case, a first-time adopter may use such event-driven fair value

as deemed cost at the date of that measurement in accordance with Federal Standards.

- B. If the measurement date is after the date of adoption of the Standards, but during the period of transition where the first-time adopter takes advantage of exemptions (which allows non-recognition of certain assets for a period of three years), the event-driven fair value may be used as deemed cost when such events occur. A first-time adopter shall recognise the resulting adjustments directly in the calculation of accumulated surplus or deficit when the asset is recognized and/or measured.
62. In determining fair value in accordance with paragraph 60, a first-time adopter shall apply the definition of fair value and explanations provided in relevant Federal Standards in order to determine the fair value of the relevant asset. Said fair value shall reflect the conditions which existed on the date it was determined.
63. Where there is no reliable market-based evidence of fair value of stock or investment property of special nature, a first-time adopter may consider the following measurement alternatives to determine deemed cost:
- A. For inventory, current replacement cost; and
 - B. For investment property of special nature, depreciated replacement cost.

Using Deemed Cost to Measure Assets Acquired Through Non-exchange Transactions

64. A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at fair value where reliable information about the cost of said asset is unavailable, and use fair value as deemed cost.

Using Deemed Cost of Investments in Controlled Entities, Joint Ventures and Associates (FGAAS 34 - Separate Financial Statements)

65. When a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, on the date of adoption, elect to measure said investment at one of the following amounts in its separate opening statement of financial position:
- A. Cost; or
 - B. Deemed cost which, for said investment, is its fair value (determined in accordance with FGAAS 41 "Financial Instruments") on the date of first-time adopter's adoption of Standards in its separate financial statements.
66. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring it at fair value on a particular event-driven date; in which case, the first-time adopter shall apply paragraph 65.

Deemed Cost Determination Date

67. The date at which deemed cost is determined may vary depending in whether the first-time adopter takes advantage of transitional exemptions that relieve it from recognizing and measuring assets and/or liabilities for three years as of the date of adoption. When a first-time adopter takes advantage of this exemption, deemed cost may be determined at any date during the transition period or on the date the exemption period expires (whichever is earlier), and shall be recognized in accordance with paragraph 68. If, on the other hand, the first-time adopter does not take advantage of this exemption, deemed cost shall be determined at the beginning of the earliest fiscal period presented in the FGAAS-compliant financial statements of the first-time adopter.
68. When deemed cost is determined during the transition period where a first-time adopter takes advantage of the exemption relieving it from recognizing assets and/or liabilities for three years as of the date of adoption, the first-time adopter shall recognise adjustment in the opening balance of the accumulated surplus or deficit account in the period during which deemed cost of assets and/or liabilities is recognized and/or measured.

Ineffective Exemptions Relating to FGAAS Stipulations*FGAAS 1 "Presentation of Financial Statements"*

69. This standard does not require a first-time adopter to present comparative information in its first transitional financial statements or first FGAAS-compliant financial statements presented in accordance with this standard.



70. A first-time adopter is not required to present comparative information in its transitional financial statements or first FGAAS-compliant financial statements presented in accordance with this standard. Therefore, said financial statements shall include:
- A. Statement of financial position and opening statement of financial position as on the date of adoption of Federal Standards;
 - B. Statement of financial performance;
 - C. Statement of changes in net assets / equity;
 - D. Cash flow statement;
 - E. Comparison of budget and actual amounts for the current period as an additional financial statement; if the first-time adopter makes its budget publicly available; and
 - F. Relevant notes and disclosure of clear information related to material adjustments pursuant to paragraph 127.
71. When a first-time adopter takes advantage of the effective exemptions discussed in paragraphs 27 - 54 which grant relief from recognizing and/or measuring a certain item during the transition period of three years, it shall only adjust comparative information for the fiscal year following the date of adoption when information relating to items becomes available after recognizing and/or measuring said items during the exemption period.
72. FGAAS 1 regarding presentation of financial statements requires federal entities to present comparative information related to previous period for all amounts presented in financial statements. However, when a first-time adopter takes advantage of effective exemptions which grant relief from recognizing and/or measuring a certain item within the first three years as of the date of adopting Federal Standards, the first-time adopter shall, during the transition year, present comparative information only for the item recognized and/or measured during said period; if information related to said item becomes available. A first-time adopter shall apply the requirements of FGAAS 1 after adjusting its first FGAAS-compliant financial statements.

FGAAS 4 "Effects of Changes in Foreign Exchange Rates"

73. A first-time adopter is not required to comply with the requirements related to cumulative translation differences that exist on the date of adopting Federal Standards. If a first-time adopter takes advantage of this exemption, then:
- A. Cumulative translation differences for all foreign operations shall be deemed to be zero on the date of adoption;
 - B. Profit or loss resulting from subsequent disposal of any foreign operations shall exclude translation differences which arose before the date of adopting Federal Standards, and shall include translation differences which arose thereafter.
74. Instead of applying paragraph 73, a controlled entity that uses the exemption in paragraph 111 (A) may elect, in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of adoption of FGAASs, if no adjustments were made for consolidation procedures and for the effects of the federal entities' business combination in which the controlling entity acquired the controlled entity. A similar election is available to an associate or joint venture that uses the exemption in paragraph 111 (A).

FGAAS 5 "Borrowing Costs"

75. When a first-time adopter applies or changes its accounting policy in line with baseline policies, it is allowed to designate any date prior to the date of adopting the Standards and apply FGAAS 5 prospectively on or after said designated date.

FGAAS 43 "Leases"

76. A first-time adopter shall classify all existing leases as operating or finance leases, depending on the circumstances existing at the time of inception of the lease, to the extent said facts are known on the date of adoption. A first-time adopter may assess whether a contract existing at the date of adoption of FGAASs contains a lease by applying FGAAS 43 to those contracts on the basis of facts and circumstances existing at that date.
77. When a first-time adopter that is a lessee recognizes lease liabilities and right-of-use assets, it may apply the following approach to all of its leases, (subject to the practical expedients):
- A. Measure a lease liability at the date of adoption of FGAASs. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of adoption of FGAASs.
 - B. Measure a right-of-use asset at the date of adoption of FGAASs. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:
 - ✓ Its carrying amount as if FGAAS 43 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of adoption of FGAASs; or

- ✓ An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of adoption of FGAASs;
- C. Apply FGAAS 21 or FGAAS 26 to right-of-use assets at the date of adoption of FGAASs.

78. A first-time adopter that is a lessee may do one or more of the following at the date of adoption of FGAASs, applied on a lease-by-lease basis:

- A. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- B. Elect not to apply the requirements in the above paragraph to leases for which the lease term ends within 12 months of the date of adoption of FGAASs. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted for in accordance with FGAAS 43.
- C. Elect not to apply the requirements in the above paragraph to leases for which the underlying asset is of low value (as described in FGAAS 43). Instead, the entity shall account for (including disclosure of information about) these leases in accordance with FGAAS 43.
- D. Exclude initial direct costs from the measurement of the right-of-use asset at the date of adoption of FGAASs.

Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

FGAAS 18 "Segment Reporting"



79. A first-time adopter is not required to present segment-specific information for reporting periods beginning within three years after the date of adoption.

FGAAS 21 "Impairment of Non-cash Generating Assets"



80. A first-time adopter shall apply the requirements of FGAAS 21 regarding prospective impairment of non-cash generating assets as of the date of adoption, with the exception of assets which the first-time adopter chooses not to recognise and/or measure in accordance with paragraph 31 which grants relief from recognizing and/or measuring assets during the three-year transition. If a first-time adopter takes advantage of transitional exemptions related to assets, FGAAS 21 "Impairment of Non-cash Generating Assets" shall be applied after any of the following:

- A. Expiry of the exemption period; or
- B. When the first-time adopter recognises and/or measures said assets in accordance with applicable Federal Standards.

81. On the date 78(A) or 78(B) occurs, a first-time adopter shall assess whether there is any indicator of impairment of non-cash generating assets recognized and/or measured in the statement of financial position. Impairment loss is recognized in the opening balance of

accumulated surplus or deficit account as on the date of adopting the Standards or in the opening balance of the accumulated surplus or deficit account in the fiscal period during which the transitional exemptions period expires and/or in the fiscal period during which relevant assets are recognized and/or measured (whichever is earlier).

FGAAS 39 "Employee Benefits"



82. A first-time adopter shall recognise and/or measure all employee benefits on the date of adopting Federal Standards; with the exception of defined benefit plans and other long-term employee benefits with respect of which it may take advantage of the effective exemptions prescribed in paragraph 31 of this standard.

Defined Benefit Plans and Other Long-term Employee Benefits

83. Whether in the date of adopting the Federal Standards or when taking advantage of transitional exemptions period (for a maximum period of three years, whether upon complete expiry of the exemption period or upon recognition and/or measurement of relevant liabilities in financial statements (whichever is earlier)), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits on said date as:
- A. The present value of the liability using the actuarial valuation form (projected unit credit method) on:
 - ✓ Standards adoption date; or
 - ✓ Date of expiry of the exemption period or recognition and/or measurement of the relevant liability in financial statements (whichever is earlier); where the first-time adopter takes advantage of exemptions;
 - B. Minus fair value of plan assets (if any) to be directly used to settle the liability on:
 - ✓ Standards adoption date; or
 - ✓ Date of expiry of the exemption period or recognition and/or measurement of the relevant liability in financial statements (whichever is earlier); where the first-time adopter takes advantage of exemptions; and
 - C. Minus any past service cost which shall be recognized in subsequent periods as an expense on a straight-line basis over the average period until said benefits fall due.
84. If the initial liability as defined in paragraph 82 is less or more than the liability recognized and/or measured at the end of the comparative period under the accounting basis previously adopted by the first-time adopter, the first-time adopter shall recognise said increase or decrease in the opening balance of cumulative surplus or deficit during the period in which said items are recognized and/or measured.
85. Actuarial profits and losses which arose in earlier periods (if any), even if they were beyond the scope of FGAAS 39 "Employee Benefits", shall be deemed effects of changes in the relevant accounting policy. A first-time adopter may have not recognized and/or measured any liability in accordance with its previous accounting basis; in which case, the increase in the liability shall be the total amount of the liability minus its fair value on the date associated with plan assets in accordance with paragraph 82(B) and any past service cost as provided for

in paragraph 82(C). Said increase in the liability shall be recognized in the opening balance of accumulated surplus or deficit during the period in which said items are recognized and/or measured.

86. A first-time adopter shall not separate accumulated actuarial profits and losses (from the inception of the defined benefit plan(s) until the date of adoption) into recognized and unrecognized portions; as the first-time adopter is required to recognise all accumulated actuarial profits and losses in the opening balance of accumulated surplus or deficit during the period in which said items are recognized and/or measured.
87. Subject to paragraph 85, a first-time adopter may elect to recognise portions of its actuarial profits and losses in subsequent periods in accordance with FGAAS 39 "Employee Benefits".
88. A first-time adopter shall disclose information about experience adjustments provided for in FGAAS 39 regarding employee benefits on a prospective basis as of the date of adopting Federal Standards.

FGAAS 26 "Impairment of Cash-generating Assets"

89. A first-time adopter shall apply the requirements of FGAAS 26 regarding prospective impairment of cash- generating assets as of the date of adoption, with the exception of assets which the first-time adopter chooses not to recognise and/or measure in accordance with paragraph 31 which grants relief from recognizing and/or measuring assets during the three-year transition. If a first-time adopter takes advantage of transitional exemptions related to assets, FGAAS 26 "Impairment of Cash-generating Assets" shall be applied after any of the following:

- A. Expiry of the exemption period; or
- B. When the first-time adopter recognises and/or measures said assets in accordance with applicable Federal Standards.

90. On the date 88(A) or 88(B) occurs, a first-time adopter shall assess whether there is any indicator of impairment of cash-generating assets recognized and/or measured in the statement of financial position. Impairment loss is recognized in the opening balance of accumulated surplus or deficit account as on the date of adopting the Standards or in the opening balance of the accumulated surplus or deficit account in the fiscal period during which the transitional exemptions period expires and/or in the fiscal period during which relevant assets are recognized and/or measured (whichever is earlier).

FGAAS 41 "Financial Instruments"

91. On the date of adoption of the Federal Standards, a first-time adopter shall evaluate components of financial instruments in order to determine whether they contain both a liability component and/ or a net asset / equity component. If the liability component is no longer existent on the date of adoption, the first-time adopter shall not be required to separate the compound financial instrument into a liability component and net asset / equity component so long as the liability component is not outstanding on the date of adoption.

Recognition and Measurement: Classification of Financial Instruments on the Date of Adoption or During the Transition Period



92. A first-time adopter may classify a financial asset or liability at fair value through surplus or deficit that meets classification principles prescribed in FGAAS 41 “Financial Instruments”. A first-time adopter shall disclose the fair value of financial assets and liabilities in each class as on the date of classification, as well as their classification and carrying amounts.
93. FGAAS 41 allows a financial asset to be classified, upon initial recognition, as a financial instrument (which meets certain conditions) at fair value through surplus or deficit. Notwithstanding this requirement, exemptions shall apply in the following cases:
- A. A first-time adopter may designate an available-for-sale asset on the date of adoption of the Standards,
 - B. A first-time adopter may, on the date of adoption of the Standards, designate any financial asset or liability at fair value through surplus or deficit; provided that said asset or liability complies with relevant controls prescribed in FGAAS 41 “Financial Instruments” on said date.

The federal entity may designate an investment in an equity instrument as at fair value through net assets/equity in accordance with FGAAS 41 on the basis of the facts and circumstances that exist at the date of adoption of FGAASs.

Recognition and Measurement: Derecognition of Financial Assets and Liabilities



94. A first-time adopter shall prospectively apply the requirements of derecognition of financial assets and liabilities prescribed in FGAAS 41 “Financial Instruments” for all transactions taking place on or after the date of adoption of the Standards, or when the first-time adopter takes advantage of exemptions which permits it not to recognise financial instruments until the exemption period expires or the first-time adopter recognises and/or measures said financial instruments (whichever is earlier). For example, if a first-time adopter derecognises a non-derivative financial asset or liability in accordance with its previous accounting basis as a result of a transaction which took place prior to the date of adoption of the Standards, it shall not be required to recognise said asset or liability in accordance with FGAAS 41; unless they qualify for recognition as a result of subsequent event or transaction.

Hedge Accounting (please, refer to Appendix 1 of this Manual where applicable)



95. A first-time adopter shall, on the date of adoption of the Standards or in the event of taking advantage of transitional exemptions which grant a relief from recognition and/or measurement of financial instruments for a maximum period of three years (until the expiry of exemptions or the date of recognition and/or measurement of relevant financial instruments (whichever is earlier)):
- A. Measure all derivatives at fair value; and
 - B. Eliminate all deferred profits and losses arising from derivatives which were presented in accordance with the previous accounting basis as if they were assets or liabilities.
96. In its opening statement of financial position, a first-time adopter shall not reflect a hedging relationship of a type that does not qualify for hedge accounting; such as many hedging relationships where the hedging instrument is a stand-alone written option, or where the hedged item (which was hedged for coverage purposes) is a net total position in a cash flow

hedge for another risk than foreign currency risk. However, if a first-time adopter classifies a net total position as a hedged item in accordance with its previous accounting basis, said first-time adopter may classify an individual item within the net total position as a hedged item in accordance with Federal Standards; or a net position if that meets the requirements of FGAAS 41 as a hedged item in accordance with Federal Standards, provided that it does so prior to the date of adoption, or if it takes advantage of effective exemptions, prior to the expiry of exemptions or upon recognition and/or measurement of the relevant financial instrument (whichever is earlier).

97. If a first-time adopter, prior to the date of adoption of Federal Standards or where it takes advantage of effective exemption if the first-time adopter; upon the expiry of exemptions or on the date of recognition and/or measurement of financial instruments (whichever is earlier), classifies a transaction as a hedge transaction and such classification does not meet hedge classification conditions, the first-time adopter shall eliminate said classification and discontinue considering said transaction a hedge transaction.

Classification and Measurement of Financial Instrument

98. A federal entity shall assess whether a financial asset meets the conditions of measuring the amortized cost or the conditions of measuring the fair value through net assets/equity on the basis of the facts and circumstances that exist at the date of adoption of FGAASs.
99. If it is impracticable to assess a modified time value of money element in accordance with FGAAS 41 on the basis of the facts and circumstances that exist at the date of transition to FGAASs. A federal entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of FGAASs without taking into account the requirements related to the modification of the time value of money element in FGAAS 41.
100. If it is impracticable to assess whether the fair value of a prepayment feature is insignificant in accordance with FGAAS 41 on the basis of the facts and circumstances that exist at the date of adoption of FGAASs. A federal entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of adoption of FGAASs without taking into account the exception for prepayment features in FGAAS 41.
101. If it is impracticable (as defined in FGAAS 3) for a federal entity to apply retrospectively the effective interest method in FGAAS 41. the Fair value of the financial asset or the financial liability at the date of adoption of FGAASs shall be the new gross carrying amount of that financial asset or the new amortized cost of that financial liability at the date of adoption of FGAASs.

Impairment of Financial Assets



102. A first-time adopter shall prospectively apply impairment requirements as of the date of adoption of the Standards.
103. A first-time adopter shall, on the date of adoption or the earlier of A) Exemptions expiry date or B) Financial instruments recognition and/or measurement date, prospectively assess whether there is any indication of impairment of financial instruments recognized and/or

measured in the statement of financial position. Any impairment losses shall be recognized in the opening balance of the accumulated surplus or deficit account on the same date of recognition of financial instruments.

104. A first-time adopter shall apply the impairment requirements prospectively. This means that on the date of adoption of FGAAS 41, when the exemptions that provided the relief have expired, and/ or when the relevant financial instruments are recognized and/or measured, a first-time adopter shall be required to assess whether there is an indication that the financial instrument is impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of FGAASs, or in the opening accumulated surplus or deficit of the reporting period in which the exemptions that provided the relief have expired, and/or the relevant financial instruments are recognized and/or measured (whichever is earlier).
105. At the date of adoption of FGAAS 41, when the exemptions that provided the relief have expired, and/ or when the relevant financial instruments are recognized and/or measured, a first-time adopter shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognized or for loan commitments and financial guarantee contracts the date that the federal entity became a party to the irrevocable commitment in accordance with FGAAS 41 and compare that to the credit risk at the date of adoption of FGAASs.
106. When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:
- A. The requirements of FGAAS 41: and
 - B. The rebuttable presumption of FGAAS 41 for contractual payments that are more than 30 days past due if a federal entity will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.
107. If, at the date of adoption of FGAASs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, a federal entity shall recognize a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized (unless that financial instrument is low credit risk at a reporting date, in which case the above paragraph (a) applies).

Embedded Derivatives

108. A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by FGAAS 41.

Disclosure

109. A first-time adopter shall present information about the nature and extent of risks arising from financial instruments in their first FGAAS-compliant financial statements or transitional financial statements.



FGAAS 31 "Intangible Assets"

110. A first-time adopter shall recognise and/or measure an internally generated intangible asset if said asset meets the recognition requirements prescribed in FGAAS 31, even if said first-time adopter has accounted for said asset as an expense under its previous accounting basis. The deemed cost may not be determined for internally generated intangible assets.

*FGAAS 32 "Service Concession Arrangements: Grantor"**Initial Measurement of Related Liabilities*

111. If a first-time adopter elects to measure service concession arrangements assets using deemed cost, related liabilities shall be measured as follows:

- A. For liabilities under the financial liability model, the remaining contractual cash flows specified in the binding agreement and the interest rate prescribed in FGAAS 32.
- B. For liabilities under the grant of a right to the operator agreement, the fair value of assets less any financial liabilities, adjusted to reflect the remaining period of the service concession agreement.

112. A first-time adopter shall recognise and/or measure any difference between the service concession asset and the financial liability under the financial liability model prescribed in paragraph 110 in the opening balance of the accumulated surplus or deficit account on the same date of recognition and/or measurement of said item.

FGAAS 34 "Separate Financial Statements", FGAAS 35 "Consolidated Financial Statements" and FGAAS 36 "Investments in Associates and Joint Ventures"

113. If a controlled federal entity adopts Federal Standards for the first time after the date on which the controlling federal entity has adopted the same, the controlling federal entity shall measure assets and liabilities in its financial statements using either:

- A. The carrying amount determined in accordance with this standard which will be included in the consolidated financial statements of the controlling entity based on the date of adoption of Federal Standards by the controlled federal entity, if no adjustments were made for consolidation procedures and for the effects of the acquisition of the controlled federal entity by the controlling federal entity.
- B. The carrying amount required by this standard, based on the date of adoption of Federal Standards by the Controlled federal entity. Said carrying amounts may differ from those prescribed in (A):
 - ✓ When the exemptions prescribed in this standard result in measurements that depend on the date of adoption of Federal Standards;
 - ✓ When the accounting policies used in controlled federal entity's financial statements differ from those used in the consolidated financial statements.

A similar option is available to an associate or joint venture that becomes a first-time adopter after the adoption date of the entity that has significant influence or joint control over it.

114. If a controlling federal entity adopts Federal Standards for the first time after the date of adoption of the same by its controlled federal entity (or associate or joint venture), the

controlling federal entity shall measure the assets and liabilities of the controlled federal entity (or associate or joint venture) in its consolidated financial statements at the same carrying amount as in the financial statements of the controlled federal entity (or associate or joint venture), after adjustments for consolidation and equity accounting method; taking into consideration the permitted exemptions applicable under this standard. Moreover, if a controlled federal entity applies Federal Standards to its separate financial statements before or after the date of applying the same to its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both its consolidated and separate financial statements; subject to permitted exemptions applicable under this standard, with the exception of consolidation adjustments.

FGAAS 35 "Consolidated Financial Statements" (Please, refer to Appendix 1 of this standard wherever applicable)

Non-controlling Interests

115. A first time adopter that is a controlled federal entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at the date of adoption of Federal Standards, and shall measure its investments in each controlled entity at fair value through surplus or deficit at the date of adoption of Federal Standards:

A first-time adopter shall apply the following requirements of FGAAS 35 prospectively from the date of transition to FGAAS

- A. The requirement regarding the total amount recognized in the statement of changes in net assets/equity is attributed to the owners of the controlling federal entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- B. The requirements regarding the accounting for changes in the controlling federal entity's interest in a controlled entity that do not result in the loss of control; and
- C. The requirements regarding the accounting for a loss of control over a controlled entity, and the related requirements of FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations.

FGAAS 42 "Social Benefits"



116. On the date of adoption of FGAAS 42 "Social Benefits", or where a first-time adopter takes advantage of the three-year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for a social benefit scheme at that date in accordance with FGAAS 42 "Social Benefits".

117. If the initial liability in accordance with the above paragraph is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

Disclosures



118. A first-time adopter financial statements of which comply with the requirements of this standard and has, at the same time, taken advantage of effective exemptions shall include in its financial statements an explicit and unreserved statement of compliance with this standard, and shall attach to said statement another statement explaining lack of full compliance with all Federal Standards.
119. When a first-time adopter takes advantage of the transitional exemptions prescribed in this standard, it shall disclose:
- A. The extent to which it has taken advantage of effective exemptions; and/ or
 - B. The extent to which it has taken advantage of ineffective exemptions.
120. When a first-time adopter takes advantage of exemptions related to assets, liabilities, revenues and/or expenses, it shall disclose:
- A. The progress it has made towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenues and/or expenses in accordance with the requirements of Federal Standards;
 - B. The assets, liabilities, revenues and/or expenses recognized and measured in accordance with the accounting policy currently adopted by the first-time adopter which is incompliant with the requirements of Federal Standards;
 - C. The assets, liabilities, revenues and/or expenses not recognized, measured and/or presented in the previous fiscal period and recognized, measured and/or presented in the current period;
 - D. The nature and amounts of adjustments recognized during the current period;
 - E. An indication of how and when the first-time adapter plans to fully comply with the requirements of Federal Standards.
121. When a first-time adapter takes advantage of exemptions allowing it to eliminate certain balances, transactions, revenues and expenses, or takes advantage of transitional exemptions which grant a three-year transition period during which the entity is relieved from recognizing and/or measuring its investments in controlled entities, associates or joint ventures, said first-time adopter shall disclose the nature of said balances, transactions, revenues and expenses, as well as upstream and downstream transactions eliminated during the fiscal period.
122. If a first-time adopter is unable to present consolidated financial statements due to the exemptions prescribed in paragraphs 50 and 54, it shall disclose:
- A. The reason for its inability to present consolidated financial statements with its investments in associates and joint ventures; and
 - B. An indication of when the first-time adapter will be able to present consolidated financial statements.

123. The disclosure requirements prescribed in paragraphs 120 and 124 will help users of financial statements track the progress made by a first-time adopter towards conforming its accounting policies to the requirements of Federal Standards during the transition period.

Explanation of Transition to FGAAS



124. A first-time adapter shall disclose:

- A. The date of adoption of Federal Standards; and
- B. Information and explanations about the impact of transition from the previous accounting basis to Federal Standards on its financial position and, if possible, its financial performance and cash flows.

Reconciliations



125. The notes to the financial statements of a first-time adopter, whether they are its first FGAAS-compliant statements or transitional financial statements, shall include:

- A. A reconciliation of net assets / equity in accordance with the previous accounting basis to the opening balance of net assets / equity on the date of adoption of Federal Standards; and
- B. A reconciliation of surplus or deficit in accordance with the previous accounting basis to the opening balance of surplus or deficit on the date of adoption of Federal Standards.

A first-time adopter the previous accounting basis of which is the cash basis shall not be required to present any of said reconciliations.

126. The reconciliations presented pursuant to paragraph 127 shall include sufficient qualitative and quantitative details to enable users of financial statements to understand material adjustments to the opening statement of financial position and, where applicable, the FGAAS-compliant opening statement of financial position. When other publicly available statements are issued in conjunction with financial statements, reference to said publicly available statements shall be made in the financial statements and vice versa.

127. In the event of errors made under the previous accounting basis, the reconciliations required by paragraph 126 shall distinguish between said errors and adjustments resulting from changes in accounting policies.

128. If a first-time adopter has not issued any financial statements in prior periods, its first FGAAS-compliant financial statements or transitional financial statements shall disclose that fact.

129. If a first-time adopter takes advantage of effective exemptions which grant a three-year transition period, notes to financial statements shall include reconciliations explaining item recognized or measured during the current period and those not recognized or measured in the previous period. This type of reconciliations shall be provided in every reporting period in which items that have not been recognized or measured in previous financial statements are recognized and/or measured for the first time.

130. The purpose of the disclosures required by the previous paragraph is to provide users of financial statements with sufficient information to understand the items recognized and/or measured during the reporting period in which a first-time adopter takes advantage of effective exemptions. Said reconciliations explain adjustments made to the opening statement of financial positions issued in the previous period and, where applicable, the statement of financial performance issued in the previous period; for every period in which new items that have not been recognized or measured in the previous period are recognized and/or measured.

Required Disclosures when Deemed Cost is used for Inventory, Investment Property, Property; Plant and Equipment, Intangible Assets, Right-of-use Assets, Financial Instruments or Service Concession Arrangements

 131. If a first-time adopter adopts the fair value model or the alternative model prescribed in paragraphs 57, 60 or 63 as deemed cost for inventory, investment property, property; plant and equipment, intangible assets, right-of-use assets, financial instruments or service concession arrangements, its financial statements shall disclose:

- A. The aggregate fair value or other measurement alternatives that were considered when determining deemed cost;
- B. The aggregate adjustments to carrying amounts that were recognized in accordance with the previous accounting basis;
- C. Whether cost deemed was determined on the date of adoption of Federal Standards or during transition periods.

Required Disclosures when Deemed Cost is used for Investments in Controlled Entities, Joint Ventures or Associates

 132. If a first-time adopter uses fair value as deemed cost in the opening statements of financial position for investments in federal entities / controlled entities, joint ventures or associates in their separate financial statements, their separate financial statements shall include:

- A. The aggregate deemed cost of said investments, fair value of which is treated as its deemed cost;
- B. The aggregate adjustments to the carrying amounts included in previous financial reports in accordance with the previous accounting basis.

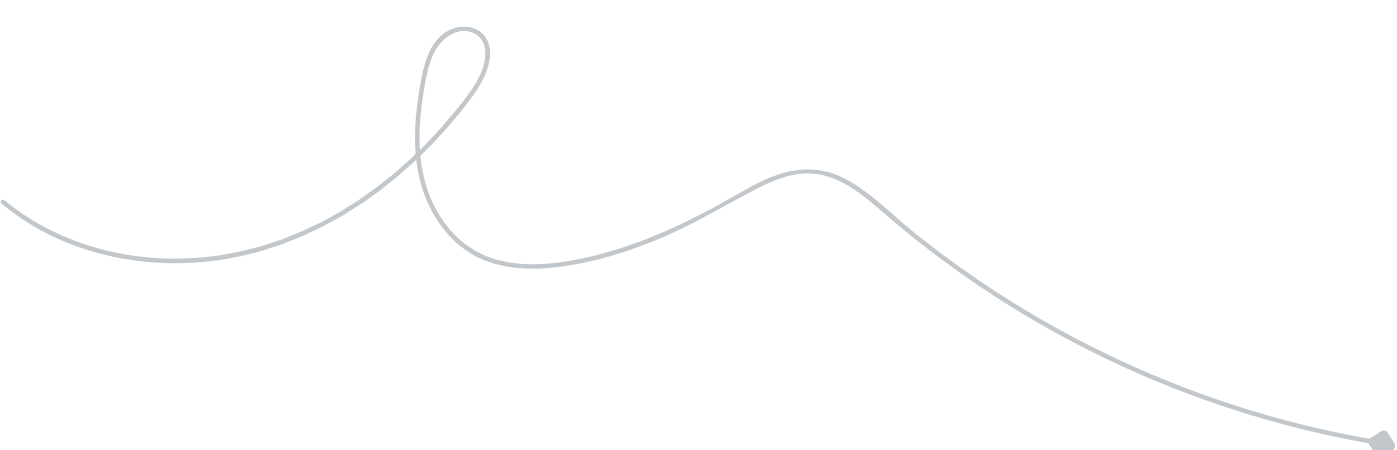
133. The requirements prescribed in paragraphs 133 and 134 shall be disclosed in every reporting period in which a new item is recognized and/or measured until the exemption period expires or the first-time adopter recognises and/or measures said item in accordance with Federal Standards (whichever is earlier).

Exemptions related to Disclosure Requirements in FGAAS during the Transition Period

 134. When a first-time adopter takes advantage of effective exemptions which grants relief from recognizing and/or measuring certain items for a three-year transition period, the first-time adopter shall not be required to apply any presentation and disclosure requirements related

to said item which have not been recognized and/or measured until the exemption period expires and/or the first-time adopter recognises and/or measures said items in accordance with Federal Standards (whichever is earlier).

135. Notwithstanding the transitional exemptions prescribed in paragraph 133, this standard encourages first-time adopters to apply all the disclosures required by Federal Standards as soon as possible.



Standard 3 - Accounting Policies, Changes in Accounting Estimates and Errors

Standard 3 - Accounting Policies, Changes in Accounting Estimates and Errors

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 3 (IPSAS 3) which addresses accounting policies, changes in accounting estimates and errors. It is worth mentioning that certain text of standard 3 has been rephrased in line with the requirements of UAE Federal Government.

The Standard for Accounting Policies, Changes in Accounting Estimates and Errors - Table of contents

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Objective

1. This standard seeks to provide an understanding and explanation of the following main topics which may be addressed by federal entities:
 - A. Establishing criteria for selecting and changing accounting policies;
 - B. Accounting treatment and disclosure of changes in accounting policies;
 - C. Changes in accounting estimates; and
 - D. Correction of errors.

This Standard is intended to enhance the relevance and faithful representativeness of federal entities financial statements, and the comparability of those financial statements over time and with the financial statements of other federal entities.

2. Disclosure requirements related to accounting policies have been defined, with the exception of those related to disclosure of changes in accounting policies, in FGAAS 1 "Presentation of Financial Statements".

Scope



3. This Standard applies to federal entities covered by the Manual of Accrual Basis FGAAS as detailed in the Introduction thereto. A federal entity shall apply this standard when:
 - A. Selecting and applying accounting policies;
 - B. Accounting for changes in accounting policies;
 - C. Accounting for changes in accounting estimates; and
 - D. Accounting for corrections of prior period errors.

Accounting Policies

Selection and Application of Accounting Policies



4. A federal entity adopting the accrual basis of accounting in accordance with Federal Government Accrual Accounting Standards shall determine the accounting policy(s) to be applied to a specific transaction or other event or condition by applying this standard.
5. FGAAS-compliant accounting policies adopted by a federal entity shall result in financial statements containing reliable and relevant information about the transactions and other events and conditions to which said accounting policies apply. Accounting policies need not be applied if the impact of such application is immaterial. However, it is inappropriate to make or leave errors uncorrected in a manner that leads to violation of Federal Government Accrual Accounting Standards in order to achieve a particular presentation of a federal entity's financial position, financial performance or cash flows; even if said violation of Federal Government Accrual Accounting Standards is deemed immaterial.
6. The assessment of whether omissions or misstatements in financial statements are material requires consideration of the characteristics of users of financial statements decisions of whom are influenced by the materiality of such omissions or misstatements. Users of financial statements are assumed to have reasonable knowledge of the public sector, economic activities and accounting and to be willing to examine information with reasonable diligence. Therefore, the assessment of whether omissions and misstatements in financial statements are material needs to consider the influence on users, with such characteristics, when making and evaluating decisions.
7. Federal Government Accrual Accounting Standards were developed in a detailed and clear manner and were supplemented, whenever necessary, with examples in order to help federal entities easily read and understand the provisions and paragraphs and enable them to adopt applicable standards.
8. In future cases where a particular transaction or new event or condition is not covered by Federal Government Accrual Accounting Standards, the relevant federal entity's management shall use its professional judgment in developing and applying an accounting policy that results in information that is:



- A. Relevant to users' decision-making needs; and
- B. Reliable, in that financial statements:
 - ✓ Enhance the credibility of the federal entity's financial position, financial performance and cash flows;
 - ✓ Reflect the economic substance, and not only the legal form, of transactions and other events and conditions;
 - ✓ Are fair and unbiased;
 - ✓ Reflect prudence; and
 - ✓ Are complete in all material aspects (taking material transactions into account).



9. In making the professional judgment described in paragraph 10 of this standard, the federal entity's management shall consider the applicability of the following order:
 - A. FGAAS requirements addressing similar and relevant issues;
 - B. Definitions and recognition and measurement particulars related to assets, liabilities, revenues and expenses addressed in FGAAS.
10. In addition to the provisions of paragraph 9 hereof, in future cases giving rise to new transactions, events or conditions of a nature that is different to but does not conflict with the nature of the federal entity's work, the federal entity may use the following sources until Federal Government Accrual Accounting Standards are amended such that they cover said new transactions, events or conditions:
 - A. Latest pronouncements or publications of international accounting standards bodies; provided that their content does not conflict with Federal Government Accrual Accounting Standards; and
 - B. Practices adopted in the public sector (e. g. Foreign governments) or private sector; provided that they do not conflict with Federal Government Accrual Accounting Standards.



Consistency of Accounting Policies



11. A federal entity shall select and apply its accounting policies consistently for similar transactions and other events and conditions; unless a particular FGAAS requires or permits classification of items into classes for which different accounting policies may be appropriate. If a standard requires or permits such classification, the appropriate accounting policy shall be selected and consistently applied to each category.

Changes in Accounting Policies



12. A federal entity shall change its accounting policy only if such change:
 - A. Is required by a FGAAS; or
 - B. Results in financial statements providing reliable and more relevant information about the effects of transactions and other events and conditions on federal entity's financial position, financial performance or cash flows.
13. Users of financial statements need to be able to compare the financial statements of a federal entity over time to identify curves and trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies shall be applied during each period and from one period to another; except where accounting policies are changed in accordance with paragraph 14 of this standard.
14. The following shall be deemed changes in accounting policies:
 - A. A change from one particular accounting basis to another;
 - B. Any change in the accounting treatment, recognition or measurement of a transaction, event or condition within a specific accounting basis.



15. The following shall not be deemed changes in accounting policies:

- A. The application of an accounting policy for transactions or other events or conditions which differ in nature to those which occurred previously; and
- B. The application of a new accounting policy for transactions or other events or conditions that did not occur previously or that were immaterial.

Applying Changes in Accounting Policies



16. Subject to paragraph 18 of this standard:

- A. A federal entity shall account for changes in its accounting policy resulting from initial application of a FGAAS in accordance with the transitional provisions (if any) prescribed in said standard or in FGAAS 33 "First-time Adoption of the Accrual Basis"; and
- B. A federal entity shall retrospectively apply changes in its accounting policy when it changes the same upon initial application of a particular FGAAS that does not include specific transitional provisions applicable to such change, or if the federal entity voluntarily decides to change its accounting policy.



Example 3.1 - Voluntary Changes in Accounting Policies

Following are some (non-inclusive) examples of voluntary changes in accounting policies:

- A. Early application of a particular FGAAS.
- B. If a new transaction arises in the future and is different to but does not conflict with the nature of federal entity's work, or if the federal entity decides to change its accounting policy by, for instance, adopting a recently issued International Public Sector Accounting Standard (IPSAS); pending amendment of Federal Government Accrual Accounting Standards so that they cover said new transaction.

Retrospective Application



17. When a change in its accounting policy is applied retrospectively, the federal entity shall adjust the opening balance of each affected item of net assets / equity for the earliest prior period presented in financial statements and other comparative amounts disclosed for each prior period presented in financial assets as if the new accounting policy had always been applied; with the exception of cases provided for in paragraph 18.



Example 3.2 - Changes in Accounting Policies (Retrospective Application)

Facts:

Suppose that until 2017, the Ministry of Health has been adopting an accounting policy for determining the carrying amount of inventory using the "Weighted Average Cost Adjustment" method. However, at the beginning of 2018, after several administrative meetings, the Ministry decided to change the method of accounting for inventory from "Weighted Average Cost Adjustment" to "FIFO Adjustment". Ministry's administration expects material changes to result from this change in its accounting policy.



Example 3.2 - Changes in Accounting Policies (Retrospective Application)

Column "A" below represents all the facts related to inventory when using the "Weighted Average Cost Adjustment" method.

Accounting Treatment:

The Ministry of Health voluntarily decided to change its accounting policy for inventory from "Weighted Average Cost Adjustment" to "FIFO Adjustment". Therefore, this change in the method of accounting for inventory is considered a change in the accounting policy which should be applied retrospectively.

The Ministry determined what carrying amounts will be as if the new accounting policy has always been applied. (See column "B" below)

Therefore, the Ministry of Health should adjust the opening balance of net assets / equity for the earliest prior period presented in financial statements (The opening balance for 2017 has been adjusted. *See *AED 31,000 in column "B"*), and other comparative amounts disclosed for each prior period presented in financial statements as if the new accounting policy has always been applied.

Retrospective Change in the Accounting Policy				
	A		B	
	Weighted Average Cost Adjustment		FIFO Adjustment	
	2018	2017	2018	2017
	AED	AED	AED	AED
Portion of the Statement of Financial Position (Carrying Amount of Inventory)				
Inventory	10,000	12,000	12,000	13,000
Portion of the Statement of Financial Performance (Accounting for cost of Sale of Inventory)				
	2018	2017	2018	2017
	AED	AED	AED	AED
Opening Balance of Inventory	12,000	8,000	13,000	10,000
Inventory Purchases	48,000	44,000	48,000	44,000
Ending Balance of Inventory	(10,000)	(12,000)	(12,000)	(13,000)
Cost of Sale of Inventory	50,000	40,000	49,000	41,000
Portion of the Statement of Changes in Net Assets				
	2018	2017	2018	2017
	AED	AED	AED	AED
Opening Balance of General Reserve	50,000	30,000	50,000	*31,000
Surplus / deficit for the Period	30,000	20,000	31,000	19,000
Ending Balance of General Reserve	80,000	50,000	81,000	50,000

Restrictions on Retrospective Application of Changes in Accounting Policies

18. When retrospective application is required, a federal entity shall apply the change in its accounting policy retrospectively; except when any of the following cannot be determined:
- A. Period-specific effects; or
 - B. Cumulative effect of change.



19. When the accounting policy is changed and the federal entity cannot determine the period-specific effects on comparative information for one or more presented prior periods, the federal entity shall apply the new accounting policy to the carrying amount of assets and liabilities as at the beginning of the earliest period in which retrospective application is possible, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected item of net assets/ equity for said period.



20. If a federal entity cannot determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the federal entity shall adjust the comparative information to apply the new accounting policy prospectively as of the earliest practicable date. Therefore, the portion of cumulative effect on assets, liabilities and net assets / equity arising prior to said date shall be disregarded. The federal entity shall be permitted to change its accounting policy regardless of whether or not it can apply such change retrospectively.

21. When a federal entity applies a new accounting policy retrospectively, it shall apply the same to comparative information for the earliest possible prior period. Retrospective application is only possible when it is practicable to determine the cumulative effect on the amounts in the opening and closing statements of financial performance for said period. Amounts related to periods prior to those presented in financial statements shall be adjusted in the opening balance of each affected item of net assets/ equity for the earliest presented prior period. Adjustment is usually made to general reserve. However, it may be made to another item of net assets / equity. Adjustment is also made to other information about prior periods such as historical summaries of financial statements, as of the earliest practicable date.

Disclosures Arising from Changes in Accounting Policies

22. When initial application of a FGAAS has:

- A. An effect on the current period or any prior period; or
- B. An effect, but it is impracticable to determine the adjustment amount; or
- C. A possible effect on future periods,

The federal entity shall disclose the following:

- A. The title of the standard;
- B. When applicable, the change in the accounting policy is made in accordance with transitional provisions;
- C. The nature of the change in the accounting policy;
- D. When applicable, a description of the transitional provisions;
- E. When applicable, the transitional provisions that might affect future periods;
- F. To the extent possible, the adjustment amounts for each item of the financial statements for the current period and each prior period presented in financial statements
- G. To the extent possible, the adjustment amount related to prior periods that are not presented in financial statements;
- H. If the federal entity cannot apply the change retrospectively in accordance with paragraph 16 (A) or (B) to a particular prior period, or periods prior to those presented in financial statements, it shall disclose the circumstances which lead to this condition, along with a description of how and when the change in its accounting policy was applied.

A federal entity shall not be required to disclose said information in financial statements for subsequent periods; so long as the same are disclosed in the financial statements of the current period.



23. When a voluntary change in accounting policy has:

- A. An effect on the current period or any prior period; or
- B. An effect, but it is impracticable to determine the adjustment amount; or
- C. A possible effect on future periods,

The federal entity shall disclose the following:

- A. The nature of the change in accounting policy;
- B. The reason why applying the new accounting policy provides reliable and more relevant information;
- C. To the extent possible, the adjustment amounts for each item of the financial statements for the current period and each prior period presented in financial statements;
- D. To the extent possible, the adjustment amount related to prior periods that are not presented in financial statements;
- E. If the federal entity cannot apply the change retrospectively to a particular prior period, or periods prior to those presented in financial statements, it shall disclose the circumstances which lead to this condition, along with a description of how and when the change in its accounting policy was applied.

A federal entity shall not be required to disclose said information in financial statements for subsequent periods; so long as the same are disclosed in the financial statements of the current period.



24. When a federal entity does not apply a new FGAAS that has been issued but not yet adopted by said federal entity, it shall disclose the following:

- A. The fact that said standard has not been adopted;
- B. Known or reasonably estimated information related to assessing the possible impact of the new standard on federal entity's financial statements during the period of initial application.

25. Pursuant to paragraph 24, a federal entity shall consider the following disclosures:

- A. The title of the new standard;
- B. The nature of impending change(s) in accounting policy;
- C. The date by which application of the standard is required;
- D. The planned date of initial application of the standard by the federal entity; and
- E. Either:
 - ✓ A discussion of the expected effect of initial application of the standard on federal entity's financial statements; or
 - ✓ If said effect is unknown or cannot be reasonably estimated, a statement to this effect shall be made by the federal entity.

Changes in Accounting Estimates

26. As a result of the uncertainties inherent in delivering services, business activities or other services, many items in financial statements cannot be accurately measured and federal entities, therefore, only estimate them. Estimation involves judgments based on the latest reliable information available to the federal entity. Estimates which a federal entity needs to make include, but are not limited to, the following:

- A. Due tax revenue (where applicable);
- B. Doubtful debts and receivables (i.e.: Uncollected taxes);
- C. Inventory obsolescence;
- D. The fair value of financial assets or liabilities;
- E. The useful lives or expected pattern of depreciation of future economic benefits or service potential of depreciable assets, or the percentage completion of road construction; and
- F. Warranty liabilities (where applicable);



27. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

28. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

29. A change in the applied measurement basis is a change in an accounting policy, rather than a change in an accounting estimate. When it is difficult for a federal entity to distinguish between a change in an accounting policy and a change in an accounting estimate, the change shall be treated as a change in an accounting estimate.



30. A federal entity shall recognise the effect of change in an accounting estimate, other than a change to which paragraph 31 of this standard applies, prospectively by including it in the statement of financial performance in:

- A. The period of the change, if the change affects the period only;
- B. The period of the change and future periods, if the change affects both.



31. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or an item of net assets / equity, the federal entity shall recognise the effect of the change by adjusting the carrying amount of the relevant asset, liability or item of net assets / equity during the period of the change.

32. Prospective recognition of the effect of a change in an accounting estimate means that the standard is applied to transactions and other events and conditions as of the date of the change in estimate. A change in an accounting estimate may affect only the statement of financial performance for the current period or the statement of financial performance for the current and future periods alike. In either case, the effect of the change associated with the current period shall be recognized as income or expense in the statement of financial performance for the current period. The effect on future periods, if any, shall be recognized as income or expense in the statement of financial performance for future periods.



Example 3.3 - Changes in Accounting Estimates

A (non-inclusive) example of a change in an accounting estimate affecting only the statement of financial performance for the current period:

- A. Provision for impairment of cash-generating assets
- B. Provision for doubtful receivables
- C. Provision for inventory obsolescence

An example of a change in an accounting estimate affecting the statement of financial performance for the current period and future periods:

Facts:

The Ministry of Energy and Infrastructure purchased a certain machine. Below are all the relevant facts:

Date of Purchase	Purchase Price (AED)	Useful Life	Remaining Amount upon Expiry of Useful Life	Depreciation Method	Depreciation Expense per Period (AED)
January 1, 2017	100,000	Five years	Zero	Straight-line	20,000

In 2019, upon reviewing the machine's useful and remaining lives, the Ministry of Energy and Infrastructure Found that the machine's useful life is expected to expire on December 31, 2020 rather than December 31, 2021.

Accounting Treatment:

The Ministry of Energy and Infrastructure needs to account for the change in estimate prospectively as the change in the estimated useful life of the asset affects the depreciation expense for the current period and each future period during the remaining useful life of the asset. (See the change in depreciation expense in 2019 and 2020 from AED 20,000 to AED 30,000 as detailed below).

Years	Depreciation Expense	Accumulated Depreciation	Calculation of Depreciation Expense
2017	20,000	(20,000)	(100,000/5)
2018	20,000	(40,000)	(80,000/4)
2019	30,000	(70,000)	(60,000/2)
2020	30,000	(100,000)	(30,000/1)

Disclosures Arising from Changes in Accounting Estimates



33. A federal entity shall disclose the nature and amount of a change in an accounting estimate affecting the current period or expected to affect future periods, with the exception of

disclosure of the effect on future periods when such effect cannot be estimated; in which case, the federal entity shall make a statement to this effect.

Errors

34. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements of a federal entity shall not be deemed FGAAS-compliant if they contain material or immaterial errors made intentionally in order to achieve a particular presentation of the federal entity's financial position, financial performance or cash flows. The federal entity shall correct discovered potential current period errors before financial statements are authorized for issue in said period. However, a federal entity sometimes does not discover material errors until a subsequent period; in which case, prior period errors shall be corrected in the comparative information presented in the financial statements of that subsequent period.

 35. Subject to paragraph 36 of this standard, a federal entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after discovering the same; by:

- A. Restating the comparative amounts for the prior period(s) presented in which errors occurred; or
- B. If the error occurred before the earliest presented prior period, the federal entity shall adjust the opening balances of assets, liabilities and net assets / equity for the earliest presented prior period.

Restriction on Retrospective Correction of Errors

 36. A federal entity shall correct prior period errors by adjusting the statements retrospectively, unless it is impracticable to determine either the period-specific effect or the cumulative effect of the error.



37. When it is impracticable to determine the effect of a period-specific error on comparative information for one or more presented prior periods, a federal entity shall adjust the opening balances of assets, liabilities and net assets/ equity for the earliest period for which retrospective adjustment is practicable (which may be the current period).



38. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, or when a federal entity cannot determine the error amount (For example: An error in applying an accounting policy) for all prior periods, the federal entity shall adjust the comparative information to correct the error prospectively as of the earliest date possible, and shall disregard the portion of cumulative adjustment of assets, liabilities and net assets / equity that arises prior to that date.

39. A federal entity shall not be required to correct a prior period error in the statement of financial performance for the period in which the error is discovered. Therefore, the federal entity shall adjust any information presented about prior periods; including any historical summaries of financial statements as of the earliest period practicable.

40. Correction of errors is not the same as changes in accounting estimates; as accounting estimates are, by nature, approximations that may need adjustment as additional relevant information becomes available.



Example 3.4 - Correction of Prior Period Errors

Facts:

After preparing the financial statements for 2020 and comparative information for 2019, a federal entity's financial management discovered an error in the financial statements for 2019 as asset depreciation was incorrectly recognized and recorded in said financial statements. Said error was a result of the fact that the management did not account for depreciation of the offices in 2019 which amounted to AED 1,000.

Accounting Treatment:

Eliminating the depreciation expense amount from the financial statements for 2019 is a prior period error. Therefore, management needs to adjust the financial statements retrospectively (See column B of Adjusted Financial Statements which shows the effect of adjustment to the depreciation expense in the financial statement for 2019 on the carrying amount of assets through depreciation and on net assets / equity).

Note that there will be no change in surplus / deficit for 2020 between columns A and B as the error belongs to a prior period (i.e. 2019). Therefore, the depreciation expense was increased from AED 1,000 to AED 2,000 in the statement of financial performance for 2019 as illustrated below.

Example 3.4 - Correction of Prior Period Errors

Correcting a Prior Period Error (Retrospectively)					
	A		B		
	Financial Statements before Correcting the Prior Period Error		Adjusted Financial Statements		
Portion of the Statement of Financial Position (Carrying Amount of Assets)	2020	2019	2020	2019	
	AED	AED	AED	AED	
Cost of Assets	50,000	50,000	50,000	50,000	
Accumulated Depreciation	(10,000)	(8,000)	(11,000)	(9,000)	
Carrying Amount of Assets	40,000	42,000	39,000	41,000	
Portion of the Statement of Financial Performance (Depreciation Expense for Assets)	2020	2019	2020	2019	
	AED	AED	AED	AED	
Depreciation Expense	2,000	1,000	2,000	2,000	
Portion of the Statement of Changes in Net Assets	2020	2019	2020	2019	
	AED	AED	AED	AED	
Opening Balance of General Reserve	50,000	30,000	49,000	30,000	
Surplus / deficit for the Period	30,000	(20,000)	30,000	19,000	
Ending Balance of General Reserve	80,000	50,000	79,000	49,000	

As shown above, the adjustment resulted in a decrease in the carrying amount of assets from AED 40,000 (in 2020 - Column A) to AED 39,000 (in 2020 - column B) by adjusting the depreciation expense in the statement of financial performance for 2019 from AED 1,000 (column A) to AED 2,000 (column B).

Disclosures Arising from Prior Period Errors

41. When applying paragraph 35 of this standard, a federal entity shall disclose:
- A. The nature of the prior period error;
 - B. To the extent practicable, the correction amount for each item of the financial statements for each presented prior period;
 - C. The correction amount at the beginning of the earliest presented prior period;
 - D. If a federal entity cannot apply the correction retrospectively to a particular prior period, it shall disclose the circumstances which lead to such condition; along with a description of how and from when the error was corrected.

A federal entity need not repeat said disclosures in financial statements of subsequent periods.

Impracticability of Retrospective Application and Retrospective Restatement

42. In some circumstances, it may be impracticable for a federal entity to adjust the comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not be collected in the prior period (s) in a manner that allows the federal entity either to retrospectively apply a new accounting policy (including, for the purpose of paragraph 43 - 45, its prospective application to future periods) or retrospectively make restatements to correct a prior period error, and it may be impracticable to recreate the information.
43. It is necessary for a federal entity to frequently make estimates when applying an accounting policy to recognized or disclosed elements of financial statements with respect to transactions or other events of conditions. Estimations are inherently subjective, and the federal entity can develop estimates after the reporting date. Developing estimates is potentially more difficult when applying an accounting policy retrospectively or making retrospective restatements to correct a prior period error; due to the long period of time that might have passed since the affected transaction or other event or condition occurred. Nonetheless, the objective of estimates related to prior periods remains the same as for estimates made for the current period, namely; for the estimate to reflect the circumstances that existed when the transaction or other event or condition occurred.

44. Retrospective application of a new accounting policy or correction of a prior period error requires a federal entity to distinguish information which:

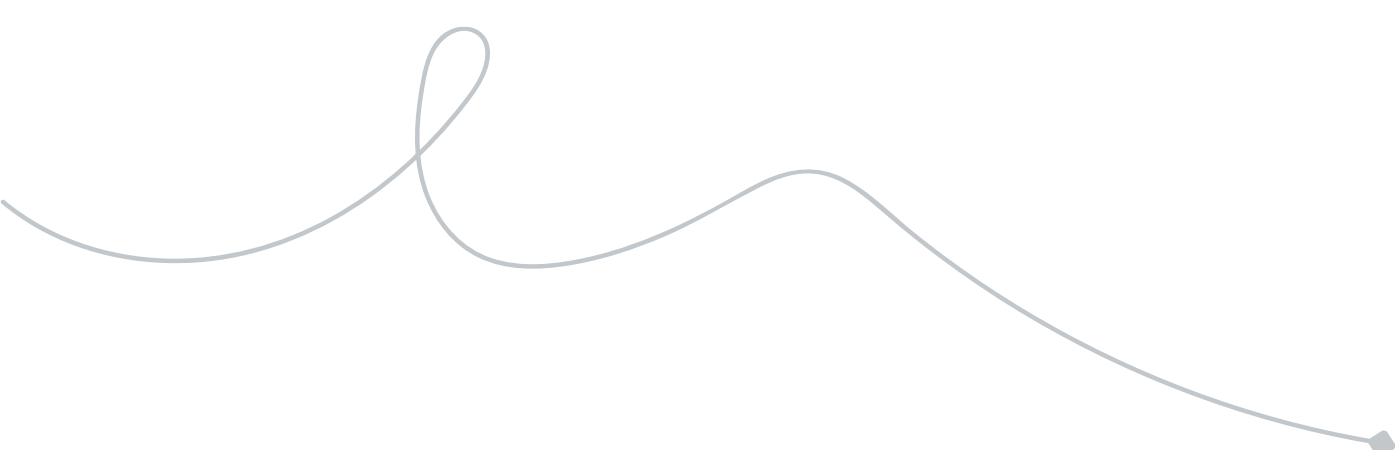
- A. Provide evidence of the circumstances which existed on the date(s) on which the transaction or other event or condition occurred; and
- B. Was available when the financial statements for said prior period were authorized for issue.

As for certain estimates based on other information (For example: Estimating fair value using unobservable significant inputs), it is impracticable for a federal entity to distinguish these types of information. When retrospective application, or retrospective restatement, requires a federal entity to make a significant estimate for which it is impossible to distinguish these two types of information, it would be impracticable for the federal entity to apply the new accounting policy or correct the prior period error retrospectively.

45. A federal entity may not use hindsight when applying a new accounting policy to a prior period or correcting prior period amounts, whether in developing assumptions about what management's intentions could have been in the prior period or estimating the amounts recognized, measured or disclosed in a prior period.

Example 3.5 - Effect of Hindsight on Prior Periods

- A. When a federal entity corrects a prior period error by classifying a particular building as an investment property instead of its previous classification as property, plant and equipment, the federal entity may not change the classification basis for said period again if its management later decides to use said building for administrative purposes.
- B. When a federal entity corrects a prior period error related to its obligation to remove the pollution resulting from its operations in accordance with FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets", it disregards information, which became available after the financial statements for said prior period were authorized for issue, about unusually severe environmental pollution during the next period.



Standard 1 - Presentation of Financial Statements

Standard 1 - Presentation of Financial Statements

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 1 (IPSAS 1) which addresses the presentation of federal entities' financial statements. It is worth mentioning that certain texts of this international standard have been rephrased in line with the requirements of UAE Federal Government.

The Standard for Presentation of Financial Statements - Table of Contents

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Objective

1. The purpose of this standard is to prescribe the manner in which general purpose financial statements should be presented in order to ensure comparability between federal entity's financial statements for previous periods and other federal entities' financial statements. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for the structure of financial statements and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.

Scope



2. This standard shall apply to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in its introduction; as all general purpose financial statements prepared and presented under the accrual basis of accounting should be presented in accordance with Federal Government Accrual Accounting Standards.
3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial statements include financial statements presented separately or as part of another public document; such as an annual report. This standard shall not apply to condensed interim financial information.



4. This Standard applies equally to all federal entities including those that present consolidated financial statements in accordance with FGAAS 35, Consolidated Financial Statements and those that present separate financial statements, in accordance with FGAAS 34, Separate Financial Statements.

Purpose of Financial Statements

5. Financial statements are a structured representation of the financial position and financial performance of a federal entity. The objective of general purpose financial statements is to provide information about a federal entity's financial position, financial performance and cash flows to help a wide range of users make and evaluate decision relating to the allocation of resources. Specifically, the objectives of general purpose financial statements are to provide useful information for decision-making and demonstrate a federal entity's accountability for resources entrusted to it; by:
- A. Providing information about financial resources and their allocation and uses;
 - B. Providing information about how the federal entity financed its activities and met its cash requirements;
 - C. Providing information that is useful in assessing federal entity's ability to finance its activities and meet its liabilities and commitments.
 - D. Providing information about federal entity's financial conditions and changes in it;
 - E. Providing aggregate information that is useful in evaluating federal entity's performance in terms of service costs, efficiency and achievements; and
 - F. Providing information about federal entity's resources and liabilities as on the reporting date and the flow of resources between various reporting dates; in order to determine said entity's ability to continue selling goods or providing services.

Although the information contained in financial statements can be relevant for the purpose of achieving the above stated objectives, it is unlikely that they can achieve all said objectives; particularly in federal entities which are not primarily profit-oriented; as the officials in such entities are likely to be held accountable for achieving service provision or financial targets. Supplementary information, including non-financial information, may be provided alongside financial statements in order to provide a more comprehensive picture of federal entity's activities during the period.

6. General purpose financial statements can also have a predictive role as they provide information that is useful in predicting the level of resources required for a federal entity's operations, resources that may be generated by federal entity's operations and associated risks and uncertainties. Financial reports can also provide users with information:
- A. Indicating whether resources were acquired and used in accordance with the approved budget; and
 - B. Indicating whether resources were acquired and used in accordance with legal and contractual requirements.
7. To meet said objectives, financial statements need to provide information about federal entity's:
- A. Assets;

- B. Liabilities;
 - C. Net assets / equity;
 - D. Revenue;
 - E. Expenses;
 - F. Other changes in net assets / equity; and
 - G. Cash flows.
8. The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing financial statements and who is responsible for approving or presenting the same.
9. The Ministry of Finance is responsible for preparing the consolidated financial statements at government level.

Components of Financial Statements



10. A complete set of financial statements includes:
- A. A statement of financial position;
 - B. A statement of financial performance
 - C. A statement of changes in net assets / equity;
 - D. Cash flow statement;
 - E. A comparison of budget and actual amounts as an additional financial statement as provided for in FGAAS 24 "Presentation of Budget Information in Financial Statements"; and
 - F. Notes, which include a summary of significant accounting policies and other explanatory notes.
11. The statement of financial position may be referred to as the balance sheet or statement of assets and liabilities, and the statement of financial performance may be referred to as the statement of revenue and expenses, income statement, operating account statement, profit and loss statement or surplus and deficit statement. Federal entities are encouraged to present additional information to help users assess their performance, management of assets and decisions regarding the allocation of resources. Said information may detail a federal entity's outputs and results in the form of performance indicators, statements of service performance, program reviews or other reports by federal entity's management about its achievements during the reporting period.
12. Federal entities are also encouraged to disclose information about compliance with laws. Where financial statements do not include information about compliance with laws, it may be useful to add a note providing reference to any other documents containing such information. Non-compliance may affect a user's assessment of a federal entity's

performance progress of future operations. Knowledge of non-compliance may also influence decisions regarding the resources to be allocated to the federal entity in the future.

Structure of Financial Statements

13. This standard requires specific disclosures in the statement of financial position, statement of financial performance and statement of changes in net assets / equity. It also requires disclosure of other items either in said statements or in notes. FGAAS 2 "Cash Flow Statements" sets out the requirements for presenting the cash flow statement.
14. The term "Disclosure" in this standard includes items presented in the statement of financial position, statement of financial performance, statement of changes in net assets / equity, cash flow statement and notes. Other FGAAS require other disclosures either in the statement of financial position, statement of financial performance, statement of changes in net assets / equity, cash flow statement (as applicable) or notes; unless otherwise specified elsewhere in this standard.

Introduction to Financial Statements

Identification of Financial Statements



15. Financial statements shall be clearly identified and distinguished from other information in the same published document.
16. Federal Government Accrual Accounting Standards shall apply only to financial statements and not any other information presented in an annual report or any other document. Therefore, it is important that users can distinguish information prepared using FGAAS from other information which may be useful to users but not the subject of those requirements.



17. Each component of financial statements shall be clearly identified, and the following information shall be prominently displayed and repeated whenever necessary in order to achieve proper understanding of presented information:
- Information about the name or any other means of identification of the reporting federal entity, and any change in that information from the preceding reporting date;
 - Whether financial statements cover the individual federal entity or an economic entity;
 - The reporting date or the period covered by the financial statements, whichever is appropriate to the relevant portion of financial statements;
 - The reporting currency as defined in FGAAS 4 "Effects of Changes in Foreign Exchange Rates"; and
 - The level of rounding used in presenting figures in financial statements; as financial statements are more understandable if information is presented in thousands or millions of units of the reporting currency, which is acceptable so long as no significant information is eliminated.xxx

**Example 1.1 - Reporting Currency**

Financial statements are presented in UAE dirhams (the official currency of the State) which is the functional currency of the federal entity.

18. The requirements prescribed in paragraph 17 are usually met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required when determining the best way of presenting said information.

Reporting Period or Timeliness*Reporting Period*

19. Financial statements shall be presented at least on an annual basis. When a federal entity's reporting date changes and financial statements are presented for a period longer or shorter than one year, the federal entity shall disclose the following, in addition to the period covered by the financial statements:
- The reason for using a longer or shorter period; and
 - The fact that comparative amounts for certain statements, such as the statement of financial performance, statement of changes in net assets / equity and cash flow statement and relevant notes are not entirely comparable.
20. In exceptional circumstances , a federal entity may be required to, or decide to, change its reporting date as, for example, in the event of conversion to the accrual basis of accounting; where the reporting date of federal entities within the economic entity is changed in order to make preparing consolidated financial statements possible; in which case, it is important that

users of financial statements are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for such change in the reporting date, if any, is disclosed.

Timeliness

21. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. A federal entity should be in a position to issue its financial statements within a maximum period of six months. Ongoing factors, such as the complexity of federal entity's operations, shall not constitute a sufficient reason for failing to report on a timely basis.

Statement of Financial Position

Current / Non-current distinction



22. Under this standard, current and non-current assets and liabilities shall be presented in the statement of financial position as separate classes in accordance with paragraphs 25 - 35(c).



23. Regardless of the presentation method, a federal entity shall disclose the amounts expected to be recovered or settled after more than 12 months of the reporting date for each item of assets or liabilities that combines the amounts expected to be recovered or settled within or after 12 months of the reporting date.
24. Separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information in the case of federal entities which provide goods or services within a clearly identifiable operating cycle; as it distinguishes net assets / equity continuously circulating as working capital from those used in federal entity's long-term operations. This classification also highlights assets that are expected to be realized during the current operating cycle, as well as the liabilities that are due for settlement during the same period.

Current Assets

25. A federal entity shall classify an asset as current when it satisfies any of the following criteria:

- A. It is expected to be realized or held for sale or consumption during the federal entity's normal operating cycle;
- B. It is held primarily for trading purposes;
- C. It is expected to be realized or benefited from within 12 months of the reporting date; or
- D. It is cash or cash equivalent (as defined in FGAAS 2 "Cash Flow Statements") unless exchange or use of the same is restricted to settle a liability for at least 12 months from the reporting date.

All other assets shall be classified as non-current.



26. This standard uses the term "Non-Current Assets" to include tangible and intangible assets, as well as financial assets of a long-term nature.

27. Current assets include assets that are either realized, consumed, or sold as part of a federal entity's normal operating cycle even if they are not expected to be realized within twelve months of the reporting date (such as inventory). Current assets also include assets held primarily for trading purposes (See FGAAS 41 "Financial Instruments") and the current portion of non-current financial assets.

Current Liabilities

28. A federal entity shall classify a liability as current when:

- A. It is expected to be settled during the federal entity's normal operating cycle;
- B. It is held primarily for trading purposes;
- C. It is due for settlement within twelve months of the reporting date; and
- D. The federal entity does not have the right at the reporting date to defer settlement of the liability for at least 12 months after the reporting date.

All other liabilities shall be classified as non-current.

Normal Operating Cycle

29. Some current liabilities are part of the working capital used in the federal entity's normal operating cycle even if they are planned to be settled after more than 12 months from the reporting date (such as certain short-term employee entitlements). Such operating items shall be classified as current liabilities.

Held Primarily for the Purpose of Trading or Due to be Settled within Twelve Months

30. Some other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within 12 months from the reporting date or held primarily for trading purposes. Examples of such liabilities include financial liabilities classified as held for trading under FGAAS 41 "Financial Instruments", the current portion of non-current financial liabilities and other non-trade payables. Financial liabilities that provide financing on a long-term basis and are neither part of the working capital used in the federal entity's normal operating cycle nor due for settlement within 12 months from the reporting date are non-current liabilities; subject to paragraphs 33 - 34. A federal entity shall classify its financial liabilities as current when they are due for settlement within 12 months from the reporting date, even if:

- A. The original term of the liability was longer than 12 months; and
- B. A long-term refinancing or payment rescheduling agreement is concluded after the reporting date and before financial statements are authorized for issue.

Right to Defer Settlement for at Least Twelve Months

31. A federal entity's right to defer settlement of a liability for at least twelve months after the reporting date must have substance and, must exist at the reporting date.

32. A federal entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting date may be subject to the federal entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 28(d), such covenants:

- A. Affect whether that right exists at the reporting date, if a federal entity is required to comply with the covenant on or before the reporting date. Such a covenant affects whether the right exists at the reporting date even if compliance with the covenant is assessed only after the reporting date (for example, a covenant based on the federal entity's financial position at the reporting date but assessed for compliance only after the reporting date).
- B. Do not affect whether that right exists at the reporting date if a federal entity is required to comply with the covenant only after the reporting date (for example, a covenant based on the federal entity's financial position six months after the reporting date).

Paragraphs 33 to 36 below cover debt financing (where applicable)

33. If a federal entity has the right, at the reporting date to defer a liability for at least 12 months from the reporting date under an existing loan facility, it shall classify said liability as non-current; even if it is due for settlement within a shorter period. If the federal entity has no such right, the federal entity does not consider the potential to refinance the liability and shall classify it as current.

34. When a federal entity breaches a covenant of a long-term loan agreement on or before the reporting date such that the liability becomes payable on demand, said liability shall be classified as current; even if the lender agrees, after the reporting date and before financial statements are authorized for issue, not to demand payment as a result of such breach. The liability shall be classified as current because the federal entity, on the reporting date, does

not have the right to defer settlement of the same for at least 12 months from said date. However, the liability shall be classified as non-current if the lender agrees, by the reporting date, to grant a grace period ending at least 12 months after the reporting date; during which the federal entity can rectify the breach and the lender cannot demand immediate repayment. Classification of a liability is unaffected by the likelihood that the federal entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date. If a liability meets the criteria for classification as non-current, it is classified as non-current even if management intends or expects the federal entity to settle the liability within twelve months after the reporting date, or even if the entity settles the liability between the reporting date and the date the financial statements are authorized for issue. However, in either of those circumstances, the federal entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the federal entity's financial position.

35. If the following events occur between the reporting date and the date financial statements are authorized for issue, such events shall qualify for disclosure as non-adjusting events in accordance with FGAAS 14 "Events after the Reporting Date":
- A. Refinancing on a long-term basis of a liability classified as current;
 - B. Rectification of a breach of a long-term loan agreement classified as current;
 - C. The grant, by the lender, of a grace period to rectify a breach of a long-term loan agreement classified as current; and
 - D. Settlement of a liability classified as non-current
36. The federal entity might classify liabilities arising from loan arrangements as non-current when the federal entity's right to defer settlement of those liabilities is subject to the federal entity complying with covenants within twelve months after the reporting. In such situations, the federal entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:
- A. Information about the covenants (including the nature of the covenants and when the federal entity is required to comply with them) and the carrying amount of related liabilities.
 - B. Facts and circumstances, if any, that indicate the federal entity may have difficulty complying with the covenants—for example, the federal entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the federal entity would not have complied with the covenants if they were to be assessed for compliance based on the federal entity's circumstances at the reporting date.

Settlement

37. For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

- A. Cash or other resources-for example, goods or services; or
 - B. The federal entity's own equity instruments, unless next paragraph applies.
38. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the federal entity's own equity instruments do not affect its classification as current or non-current if, applying FGAAS 28, Financial Instruments: Presentation, the federal entity classifies the option as an equity instrument, recognizing it separately from the liability as an equity component of a compound financial instrument.

Information to be Provided in the Statement of Financial Position



39. A statement of financial position shall include items that present the following amounts (as a minimum):
- A. Property, plant and equipment;
 - B. Investment property;
 - C. Intangible assets;
 - D. Financial assets (excluding amounts shown under E, G, H and I);
 - E. Investments accounted for using the equity method;
 - F. Inventories;
 - G. Recoverable amounts from non-exchange transactions (taxes and transfers);
 - H. Receivables from exchange transactions;
 - I. Cash and cash equivalents;
 - J. The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with FGAAS 44, "Non-current Assets Held for Sale and Discontinued Operations";
 - K. Transfers payable;
 - L. Social benefits liabilities;
 - M. Payables under exchange transactions;
 - N. Provisions;
 - O. Financial liabilities (excluding amounts shown under K, M and N);
 - P. Liabilities included in disposal groups classified as held for sale in accordance with FGAAS 44.
 - Q. Non-controlling interest presented within net assets / equity; and
 - R. Net assets / equity attributable to owners of the controlling federal entity.
40. Any additional items, headings and sub-totals shall be presented in the statement of financial position when such presentation is necessary for proper understanding of the federal entity's financial position.



41. This standard does not specifically prescribe the order or form in which items are to be presented. Paragraph 39 provides a list of items that are generally different in nature or function and, therefore, warrant separate presentation in the statement of financial position. In addition:
- A. Items are included when separate presentation of an item or set of similar items, based on their size; nature or function, is relevant to a proper understanding of a federal entity's financial position; and
 - B. The descriptions used for, and ordering of, the item or set of similar items may be amended according to the nature and transactions of the federal entity in order to provide information that is relevant to a proper understanding of the federal entity's financial position.

42. The need to separately present additional items shall be assessed based on:

- A. The nature and liquidity of assets;
- B. The function of the asset within the federal entity; and
- C. The amounts, nature and timing of liabilities.

Information to be Presented either in the Statement of Financial Position or in Notes



43. Additional sub-classifications of presented items shall be disclosed in a manner that is appropriate to the federal entity's operations; either in the statement of financial position or in the notes to the statement of financial position.

44. The detail provided in sub-classifications depends on the requirements of relevant FGAAS and the size, nature and function of relevant amounts. The factors provided for in paragraph 34 shall also be used to determine the basis of sub-classification, and disclosures may vary for each item.



Example 1.2 - Sub-Classifications

- A. Items of property, plant and equipment are divided into classes in accordance with FGAAS 17 "Property, Plant and Equipment";
- B. Receivables are divided into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments and other amounts;
- C. Inventory is classified in accordance with FGAAS 12 "Inventories" into sub-classes such as merchandise, production supplies, work in progress and finished goods;
- D. Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;
- E. Provisions are divided into provisions for employee benefits and other items; and
- F. Components of net assets / equity are divided into accumulated surplus and deficit and any reserves.



45. A federal entity which does not have any share capital shall disclose net assets / equity either in the statement of financial position or in notes; showing the following separately:

- A. Contributed capital, being the cumulative total on the reporting date of contribution from owners less distributions to owners;
- B. Accumulated surplus or deficit;
- C. Reserves; including a description of the nature and purpose of each reserve within net assets / equity; and

- D. Non-controlling group's interest; as in some cases, there may be a minority interest in net assets / equity of the federal entity. For example, at whole-of-government level, an economic entity may include businesses that are partly privatized and, therefore, private shareholders may have a financial interest in net assets / equity of the federal entity.



46. Many federal entities will not have share capital, but may be controlled by other federal entities. The nature of the government's interest in net assets / equity of a federal entity may be a combination of contributed capital, total accumulated surplus or deficit and reserves of the federal entity which reflects net assets / equity attributable to federal entity's operations. On the other hand, if a federal entity has share capital, it shall disclose the following, in addition to the disclosures prescribed in paragraph 45, either in the statement of financial position or in the notes:

- A. For each class of share capital:
- ✓ The number of shares authorized;
 - ✓ The number of shares issued and fully paid and shares issued but not fully paid;
 - ✓ The par value per share, or the fact that shares have no par value;
 - ✓ A reconciliation of the number of shares outstanding at the beginning and the end of the year;
 - ✓ The rights, preferences and restrictions attached to that class, including restriction on the distribution of dividends and repayment of capital;
 - ✓ Shares in the federal entity held by the federal entity itself or by its controlled federal entities or associates; and
 - ✓ Shares reserved for issue under various contracts (such as sale contracts), including relevant terms and amounts, and
- B. A description of the nature and purpose of each reserve within net assets / equity.

Statement of Financial Performance

Surplus or Deficit for the Period



47. The surplus or deficit in the statement of financial performance includes all items of revenue and expense recognized in a particular period; unless otherwise required by a FGAAS. This includes the effects of changes in accounting estimates. However, there may be cases when particular items may be excluded from the surplus or deficit of the current period. FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" deals with two such cases: The correction of errors and the effect of changes in accounting policies that are presented in the statement of net assets / equity.
48. Other FGAAS deal with items which may meet the definitions of revenue or expense set forth in this standard, but are usually excluded from surplus or deficit in the statement of financial performance.



Example 1.3 - Revenues and Expenses Excluded from Surplus or Deficit

Particular gains and losses arising from translating the financial statements of a foreign operation (See FGAAS 4 “Effects of Changes in Foreign Exchange Rates”) and gains or losses on remeasuring financial assets measured at fair value through net assets/equity (See FGAAS 41 “Financial Instruments”).

Information to be Presented in the Statement of Financial Performance

49. A statement of financial performance shall include items presenting the following amounts for the period (as a minimum):

- A. Revenues, presenting separately:
 - ✓ Interest revenue calculated using the effective interest method; and
 - ✓ Gains and losses arising from the derecognition of financial assets measured at amortized cost;
- B. Finance costs;
- C. Impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with FGAAS 41;
- D. Share of surplus or deficit of associate federal entities or joint ventures accounted for using the equity method; and
- E. If a financial asset is reclassified out of the amortized cost measurement category so that it is measured at fair value through surplus or deficit, any gain or loss arising from a difference between the previous amortized cost of the financial asset and its fair value at the reclassification date (as defined in FGAAS 41);
- F. If a financial asset is reclassified out of the fair value through net asset/equity measurement category so that it is measured at fair value through surplus or deficit, any cumulative gain or loss previously recognized in net assets/equity that is reclassified to surplus or deficit;
- G. Surplus or deficit.
- H. A single amount for the total of discontinued operations (see FGAAS 44).



50. The following items shall be disclosed in the statement of financial performance as allocations of surplus or deficit for the period:

- A. Surplus or deficit attributable to non-controlling interest; and
- B. Surplus or deficit attributable to the controlling federal entity.



51. Additional items, headings and sub-totals shall be presented in the statement of financial performance when such presentation is necessary for a proper understanding of the federal entity's financial performance.

52. Disclosure of components of financial performance helps in understanding achieved financial performance and making projections of future results due to the varying effects of the various activities, transactions and other events of federal entities in terms of their impact on

federal entities' ability to meet their service delivery obligations. Additional items are included in the statement of financial performance and the descriptions used and ordering of items are amended whenever necessary to explain the components of performance. Factors to be considered include relative importance and the nature and function of components of revenue and expense. No offsetting may be carried out between items of revenue and expense unless the conditions prescribed in paragraph 106 are met.

Information to be Presented either in the Statement of Financial Performance or in Notes

53. The nature and amounts of material items of revenue and expense shall be disclosed separately.



Example 1.4 - Separate Disclosure of Items of Revenue and Expense

Examples of circumstances that give rise to separate disclosure of items of revenue and expense include:

- A. Write-down of inventory to net realizable value or value of property, plant and equipment to recoverable amount or recoverable service amount, as appropriate, in addition to reversal of said write-down;
- B. Restructurings of a federal entity's activities and reverse entries of any provisions relating to the cost of restructuring;
- C. Disposals of items of property, plant and equipment;
- D. Privatizations or other disposals of investments;
- E. Discontinued operations;
- F. Litigation settlements; and
- G. Reversal entries of any other provisions.



54. A federal entity shall present a sub-classification of total revenue in a manner that is appropriate to its operations either in the statement of financial performance or in notes.



55. A federal entity shall present an analysis of expenses based on the nature or functions of expenses within the federal entity, whichever provides reliable and more relevant information, either in its statement of financial performance or in notes. However, federal entities are encouraged to present said analysis in the statement of financial performance.

56. Items of expense are sub-classified to highlight costs and recovered costs of particular programs, activities, or other relevant segments of the reporting federal entity. Said analysis shall be provided in one of the following two ways:

- A. Analyzing expenses based on their nature, where items of expense are aggregated in the statement of financial performance according to their nature and are not reallocated between various functions within the federal entity, which makes this method easy to apply.



Example 1.5 "A" - Nature-based Analysis of Expenses

UAE Ministry of Health Statement of Financial Performance

For the Period Ending On
December 31

Dirham

Revenue	x
Expenses	
Employee Benefits Costs	x
Social Benefits Expenses	x
Travel expenses	x
Maintenance and Repair Expenses	x
Consultation expenses	x
Depreciation and Amortization Expenses	x
Other Expenses	x
Total Expenses	x
Surplus/(deficit) for the period from continuing operations	x
Loss for the period from discontinued operations	(x)
Surplus or Deficit for the Period	x

- B. Analyzing expenses based on their function, where expenses are classified according to programs or purposes for which they are provided. This method often provides more relevant information to users as compared to classifying expenses according to their natures, but allocating costs to functions may require considerable judgment.



Example 1.5 "A" - Function-based Analysis of Expenses

UAE Ministry of Health Statement of Financial Performance

For the Period Ending On
December 31

Dirham

Revenue	x
Expenses	
Social Benefits Expenses	x
Health Expenses	x

Example 1.5 “A” - Function-based Analysis of Expenses

Administrative Services Expenses	x
Other Expenses	x
Total Expenses	x
Surplus/(deficit) for the period from continuing operations	x
Loss for the period from discontinued operations	(x)
Surplus or Deficit for the Period	x

57. When analyzing expenses based on their function, expenses related to a federal entity's main functions shall be shown separately.



58. Federal entities classifying expenses in the statement of financial performance by their various functions shall disclose additional information about the nature of expenses; including depreciation and amortization expense, social benefits expense and employee benefits expense.

59. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods of analysis provide an indication of those costs which may, directly or indirectly, vary depending on the outputs of the federal entity. Since each method of presentation has its advantages for different types of federal entities, this standard requires a federal entity's management to select the relevant and most reliable presentation.



60. A federal entity which has share capital (when applicable) and provides dividends or similar distributions to its owners shall disclose the amount of dividends or similar distributions recognized as distributions to owners during the period, along with the related amounts per share; either in the statement of financial performance, statement of changes in net assets / equity or in notes.

Statement of Changes in Net Assets / Equity

61. A federal entity shall present a statement of changes in net assets / equity showing:
- A. Surplus or deficit for the period;
 - B. Each item of revenue and expense for the period which, in accordance with other FGAAS, shall be directly recognized in net assets / equity, as well as the total of said items;
 - C. Total revenue and expense for the period (calculated as the sum of (A) and (B)), separately showing total amounts attributable to the owners of the controlling federal entity and to non-controlling interest;
 - D. The effects of changes in accounting policies and corrections of errors recognized in accordance with FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" for each separately disclosed item of net assets / equity.



62. In addition to what is prescribed in paragraph 56, a federal entity shall present the following either in the statement of changes in net assets / equity or in notes:
- A. The amounts of transactions with owners acting in their capacity as such, separately showing distributions to owners;
 - B. The balance of accumulated surplus or deficit at the beginning of the period and on the reporting date, and activity during the period;
 - C. A reconciliation between the amount recorded at the beginning and end of the period; separately disclosing each activity in each separately disclosed item of net assets / equity, with changes during the period representing the increase or decrease in net assets / equity. Total change in net assets / equity during the period represents the sum of (A) and (B), in addition to other revenues and expenses directly recognized as changes in net assets / equity.

The requirements prescribed in paragraphs 56 and 57 may be met by using a columnar format that reconciles the opening and closing balances of each item of net assets / equity. The items described in paragraph 56 may only be presented in the statement of changes in net assets / equity. Under this approach, the items described in paragraph 57 are shown in notes.

63. Contributions from and distributions to owners shall include transfers between two federal entities within an economic entity (e. g.: A transfer from the Government, acting in its capacity as owner, to a government department). Contributions from owners, in their capacity as such, to controlled federal entities shall be recognized as a direct adjustment to net assets / equity only when they explicitly give rise to residual rights in federal entity's net assets / equity.
64. This standard requires all items of revenue and expense recognized in a given period to be included in surplus or deficit for said period; unless another FGAAS requires the same to be directly recognized as changes in net assets / equity (certain foreign exchange differences).

This standard also requires the statement of changes in net assets / equity to be presented such that it highlights total revenue and expenses of the federal entity, including those that are directly recognized in net assets / equity; as it is important to consider all items of revenue and expense when assessing changes in a federal entity's financial position between two reporting dates.

65. FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" requires adjustments that reflect changes in accounting policies and restatements of previous years to correct errors as retrospectively as practicable. Retrospective adjustments and restatements of previous years are made to the balance of accumulated surplus or deficit; unless another FGAAS requires another item of net assets / equity to be adjusted. Paragraph 62 (D) requires disclosure in the statement of changes in net assets / equity of total adjustments to each separately disclosed item of net assets / equity as a result of changes in accounting policies and correction of errors in a separate manner. Said adjustments shall be disclosed for each prior period and the beginning of the period.
66. Other FGAAS specify whether and when amounts previously recognized in net assets/equity are reclassified to surplus or deficit. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of net assets/equity in the period that the adjustment is reclassified to surplus or deficit. These amounts may have been recognized in net assets/equity as unrealized gains in the current or previous periods. Those unrealized gains must be deducted from net assets/equity in the period in which the realized gains are reclassified to surplus or deficit to avoid including them in the statement of changes in net assets/equity twice.
67. Reclassification adjustments arise, for example, on disposal of a foreign operation (see FGAAS 4) and when some hedged forecast cash flows affect surplus or deficit.
68. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with FGAAS 17 or FGAAS 31 or on remeasurements of defined benefit plans recognized in accordance with FGAAS 39. These components are recognized in net assets/equity and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognized (see FGAAS 17 or FGAAS 31). In accordance with FGAAS 41, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of net assets/equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Cash Flow Statement

69. Cash flow information are primarily provided to users of financial statements in order to assess a federal entity's ability to generate cash and cash equivalents and the federal entity's need to utilize such cash flows. FGAAS 2 "Cash flow Statements" sets out the requirements for the presentation of the cash flow statement and related disclosures.

Notes to Financial Statements

Structure

70. The following table summarizes the requirements for the notes to financial statements:



Notes Requirements	Notes in the Order of Presentation in Financial Statements
To present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 74 - 80 as a separate component; including:	A. A statement of compliance with Federal Government Accrual Accounting Standards (See paragraph 89); B. A summary of significant accounting policies applied (See paragraph 74), in which the following shall be disclosed: ✓ The measurement bases used in preparing financial statements; ✓ The extent to which the federal entity has applied any transitional provisions prescribed in any FGAAS; and ✓ Other accounting policies used that are relevant to understanding financial statements.
To disclose the information required by FGAAS or additional information that is not presented in the statement of financial position, statement of financial performance, statement of changes in net assets / equity or cash flow statement; including:	A. Supporting information for items presented in the statement of financial position, statement of financial performance, statement of changes in net assets / equity or cash flow statement, in the order of presentation of each statement and item; and B. Other disclosures, including: ✓ Contingent liabilities (See FGAAS 19) and unrecognized contractual liabilities; and ✓ Non-financial disclosures, such as the federal entity's risk management objectives and policies (See FGAAS 30)



71. The above notes shall, to the extent practicable, be presented in a systematic manner. Each item of the statement of financial position, statement of financial performance, statement of changes in net assets / equity or cash flow statement shall include reference to any relevant information in the notes.

72. In some cases, it may be necessary or desirable to vary the order of particular items in the notes. Nonetheless, a systematic structure of notes shall, to the extent practicable, be maintained.



Example 1.6 - Notes

Information about changes in fair value recognized in surplus or deficit may be combined with information about maturity dates of financial instruments, although the former relates to the statement of financial performance and the latter to the statement of financial position.

Disclosure of Accounting Policies



73. A federal entity shall disclose the following in the summary of significant accounting policies:

- A. The measurement bases used in preparing the financial statements;
- B. The extent to which the federal entity has applied any transitional provisions prescribed in any FGAAS;
- C. Other accounting policies used that are relevant to understanding financial statements.

74. It is important for users to be informed of the measurement basis(s) used in financial statements (e.g.: Historical cost, current cost, net realizable value, fair value, recoverable amount, or recoverable service amount) because the basis on which financial statements are prepared significantly affects their analysis. When using more than one measurement basis in financial statements (for example, when revaluating particular classes of biological or agricultural assets), providing an indication of the categories of assets and liabilities to which each measurement basis is applied.

75. In deciding whether a particular accounting policy should be disclosed, the federal entity's management shall consider whether such disclosure would help users understand how transactions and other events and conditions are reflected in the reported financial performance or financial position.

76. Each federal entity shall consider the nature of its operations and the policies which users of financial statements would expect to be disclosed for such type of federal entities.



Example 1.7 - Disclosure of Accounting Policies

- A. Federal entities are expected to disclose an accounting policy for recognizing taxes, donations, and other forms of non-exchange revenue.
- B. When a federal entity has significant foreign operations or transactions in foreign currencies, it would be expected to disclose the accounting policies for recognizing foreign exchange profits and losses.



77. An accounting policy may be significant to a federal entity due to the nature of its operations, even if the amounts of the current and prior periods are insignificant. It is also appropriate to disclose each significant accounting policy that is not specifically required by FGAAS but is

selected and applied in accordance with FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors".

78. In the summary of significant accounting policies or in other notes, a federal entity shall disclose the various judgments made by the federal entity's management in the application of accounting policies that has a material effect on the amounts recognized in financial statements, separated from those involving estimates as the disclosures prescribed in this paragraph are not related to those prescribed in paragraph 81.



Example 1.8 - Disclosure of Accounting Policies

Management makes judgments when determining:

- A. Whether assets are investment property;
- B. Whether goods and/or services provision agreements which involve the use of specified assets are leases;
- C. Whether particular sales of goods are, in essence, financing arrangements and, therefore, do not give rise to revenue;
- D. Whether the essence of the relationship between the reporting federal entity and other federal entities indicates that said other federal entities are controlled by the reporting federal entity;
- E. Whether, on initial recognition and each reporting date, financial assets and liabilities are properly classified; as classification depends on the purpose for which the same have been acquired;
- F. Whether the investments classified as available-for-sale have been impaired; and
- G. Whether litigations in progress require a contingent liabilities provision to be created.
- H. Whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

79. Some of the disclosures made in accordance with paragraph 79 are required by other FGAAS.



Example 1.9 - Disclosure of Accounting Policies

- A. FGAAS 34 "Separate Financial Statements" requires a federal entity, if necessary, to disclose the reasons why its ownership interest does not constitute control with respect to an investment entity that is not a controlled federal entity even though more than half of its voting or potential voting power is, directly or indirectly, owned by controlling federal entities.

Example 1.9 - Disclosure of Accounting Policies

- B. Moreover, FGAAS 16 "Investment Property" requires disclosure of criteria developed by a federal entity to distinguish investment property from property occupied by the federal entity and property held for sale in the ordinary course of business; when classification of assets is not directly obvious.

Key Sources of Estimation Uncertainty

80. When the estimation of specific amounts for certain assets and liabilities involves a risk that would alter financial statements users' understanding, a federal entity shall disclose, in the notes, the key sources of assumptions developed to calculate uncertain estimates, as well as assumptions concerning the future. It is worth mentioning that a federal entity is not required to disclose information related to budget. With respect to said assets and liabilities, the notes shall include:

- A. Their nature; and
- B. Their carrying amounts as at the reporting date.

Example 1.10 - Estimation of Effects of Uncertain Future Events

In the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount for certain classes of property, plant and equipment, the effect on technological obsolescence on inventory and provisions subject to future outcome of a litigation in progress. Said estimates involve assumptions about such items as risk adjustment to cash flows or used discount rates and future changes in prices affecting other costs.

- 81. As the number of variables and assumptions affecting possible future resolution of estimation uncertainty increases and the application of paragraph 81 becomes impracticable, such judgments become more complicated and subjective and the potential for a subsequent material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.
- 82. When it is impracticable to disclose the extent of possible effects of a key assumption or another key source of estimation uncertainty on the reporting date, a federal entity shall disclose the fact it is reasonably possible, based on existing knowledge, that actual outcomes within the next fiscal year that are different from assumptions could require material adjustment to the carrying amount of the affected asset or liability. In all cases, the federal entity shall disclose the nature of the specific asset or liability and its carrying amount that is affected by the assumption.
- 83. Paragraph 81 shall not apply to assets and liabilities recorded at fair value, such as biological assets and certain financial instruments; as a change in fair value is not expected to be caused by estimation uncertainties.
- 84. The disclosures prescribed in paragraph 81 shall be presented in a manner that would help users of financial statements understand the judgments made by a federal entity's

management concerning the future and other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Disclosures may include:

- A. The nature of assumption or other estimation uncertainty;
- B. The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for such sensitivity;
- C. The expected resolution of estimation uncertainties and the range of reasonably possible outcomes within the next fiscal year with respect to the carrying amounts of affected assets and liabilities.

85. Any explanation of changes made to previous assumptions concerning said assets and liabilities if estimation uncertainties remain unresolved. The disclosure of certain key assumptions that may be required in accordance with paragraph 81 is also required by other FGAAS.



Example 1.11 - Disclosures of Assumptions

- A. FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" requires disclosure, in specific cases, of key assumptions concerning future events effecting classes of provisions.
- B. FGAAS 41 "Financial Instruments", on the other hand, requires disclosure of significant assumptions applied in estimating fair values of financial assets and liabilities that are recorded at fair value.

Puttable Financial Instruments Classified as Equity

86. For puttable financial instruments classified as equity instruments, a federal entity shall disclose:

- A. Summary quantitative data about the amount classified as net assets/equity;
- B. Its objectives, policies, and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders;
- C. The expected cash outflow on redemption or repurchase of that class of financial instruments; and
- D. Information about how the expected cash outflow on redemption or repurchase was determined.

Other Disclosures



87. Unless disclosed elsewhere in the information published with financial statements, a federal entity shall disclose the following:

- A. The domicile and legal form of the federal entity and the jurisdiction within which it operates;
- B. A description of the nature the federal entity's operations, and main activities;
- C. A reference to the legislation governing the federal entity's operations; and
- D. The name of the controlling federal entity and the ultimate controlling federal entity of the economic entity (where applicable).



Example 1.12 - Other Disclosures

When disclosing certain matters about the United Arab Emirates University, the following should be stated:

The United Arab Emirates University (the "University") was established pursuant to Federal Law No. 4 for 1976 and is wholly owned by the Federal Government of the United Arab Emirates.

The registered address of the University is P. O. Box 15551, Al Ain, United Arab Emirates.

The University offers a variety of accredited undergraduate and postgraduate programs through 9 faculties, and is a research university striving to develop research-based solutions to challenges encountered by the local, regional and international communities.

Overall Considerations

Fair Presentation and Compliance with FGAAS



88. Financial statements shall fairly present the financial position, financial performance and cash flows of a federal entity. Fair presentation requires faithful representation of the effects of transactions and other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses provided for in FGAAS. Proper application of FGAAS with additional disclosures, whenever necessary, results in fair presentation of financial statements.



89. A federal entity with FGAAS-compliant financial statements shall make and explicit and unreserved statement of compliance in the notes, and shall not describe financial statements as FGAAS-compliant unless they comply with all the requirements of all standards. FGAAS 33 “First-time Adoption of the Accrual Basis” provides a detailed description of financial statements and the extent to which they comply with FGAAS.



90. Fair presentation is achieved by compliance with FGAAS and requires:

- A. Selecting and applying accounting policies in accordance with FGAAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors” which also describes the hierarchy of the guidelines that a federal entity should consider in the absence of a standard that specifically applies to an item.
- B. Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- C. Providing additional disclosures when compliance with the requirements prescribed in FGAAS is insufficient to enable users to understand the effect of particular transactions and other events and conditions on a federal entity’s financial position and financial performance.



91. Inappropriate accounting policies shall not be rectified by disclosing used accounting policies, notes or explanatory material, but shall be treated in accordance with FGAAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors”.

92. In very rare cases, a requirement of a standard conflicts with the objective of financial statements as it does not represent the transactions and other events and conditions it is meant, or may reasonably be expected, to represent and may affect the decisions made by the users of financial statements. When assessing whether compliance with a requirements prescribed in a standard would be so misleading that it conflicts with the objective of financial statements set out in this standard, the federal entity’s management shall consider:

- A. The reason why the objective of financial statements is not achieved under the relevant circumstances; and
- B. The difference between the circumstances of the federal entity and those of other federal entities complying with the requirement. If other federal entities, under similar circumstances, comply with the requirement, there is a rebuttable



presumption that the federal entity's compliance with the requirements would not be so misleading that it would conflict with the objective of financial statements described in this standard.

93. A federal entity may depart from a particular requirement of a FGAAS in the manner described in paragraph 88 if the federal entity's management concludes that compliance with said requirement would be so misleading that it would conflict with the objective of financial statements prescribed in said standard. If the relevant regulatory framework requires or does not prohibit such a departure; in which case, the federal entity shall disclose:

- A. That the management has concluded that the financial statements fairly present the federal entity's financial position, financial performance and cash flows;
- B. That it has complied with FGAAS, except that it has departed from a particular requirement in order to achieve fair presentation;
- C. The title of the standard from which the federal entity has departed, the nature of departure; including the treatment required by the standard; and the reason why such treatment would be so misleading that it would conflict with the objective of financial statements prescribed in this standard, and the adopted treatment; and
- D. The financial impact of departure on each item of the financial statements that would have been reported in complying with the requirement for each presented period.



94. If a federal entity has departed from a standard in a prior period and such departure affects the amounts recognized in the financial statements of the current period, it shall make the disclosures prescribed in paragraph 93 (C) and (D)



95. A federal entity shall to the maximum extent possible, reduce the perceived misleading aspects of compliance with the requirement of a particular standard, compliance with which would be so misleading that it would conflict with the objective of financial statements prescribed in this standard, by disclosing:

- A. The title of the standard in question, the nature of the requirement and the reason why the federal entity's management has concluded that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements prescribed in this standard; and
- B. The adjustments made to each item of financial statements which the federal entity's management has concluded would be necessary to achieve fair presentation; for each presented period.

96. Departure from the requirements of FGAAS in order to comply with legal or legislative requirements for financial reporting (when applicable) shall not constitute departure that conflicts with the objective of financial statements prescribed in this standard as provided for in paragraph 92. If such departure is material, a federal entity may not claim compliance with FGAAS.

Going Concern



97. When preparing a federal entity's financial statements, those responsible for the same shall assess the entity's ability to continue as a going concern; as financial statements shall be prepared on a going concern basis unless there are plans for the entity to be liquidated or to cease operations, or if there is no realistic alternative but to do so. If said individuals are, when making their assessment, aware of uncertainties related to events or conditions that may cast doubt upon the federal entity's ability to continue as a going concern, said uncertainties shall be disclosed. If, on the other hand, financial statements are not prepared on a going concern basis, this fact shall be disclosed along with the basis on which the financial statements are prepared and the reason why the federal entity is not considered able to continue as a going concern.
98. Financial statements are usually prepared on the assumptions that a federal entity is a going concern and will continue operating and meeting its legal obligations in the foreseeable future. When assessing whether the going concern assumption is appropriate for the federal entity, those responsible for the preparation of financial statements shall consider all available information about the future which shall be at least, but not limited to, twelve months as of the date of approval of financial statements.
99. The going concern assumption depends on available information in each individual case and may not be based on a federal entity's solvency test which is usually applied to businesses; as there may be certain circumstances in which usual tests of a federal entity's liquidity and solvency produce unfavorable results, but other factors suggest that the federal entity is, nonetheless, a going concern.



Example 1.13 - Going Concern in Federal Entities

- A. When assessing whether a federal entity is a going concern, the power to levy rates or taxes may enable certain federal entities to be considered as a going concern even if they operate, for specific periods, with negative net assets / equity.
- B. Assessing a federal entity's statement of financial position on the reporting date may suggest that the going concern assumption is inappropriate. However, there may be financing agreements or other arrangements in place to ensure the federal entity continues operating for a number of years.

100. Determining whether the going concern assumption is appropriate for a federal entity is primarily relevant for individual federal entities rather than for the government as a whole. Those responsible for the preparation of financial statements for individual federal entities may, when assessing whether the going concern basis is appropriate, need to consider a wide range of factors relating to current and expected performance, potential and announced



restructuring of organizational units, estimates of revenues or the likelihood of continued government funding and potential sources of alternative funding; before concluding that the going concern assumption is appropriate.

Example 1.14 - Going Concern in Federal Entities

Emirates general Petroleum Corporation ("Emarat") was established pursuant to Federal Law No. 16 for 1980 and is wholly-owned by the UAE Federal Government, but is run on a commercial basis.

The Federal Government decided to increase the government subsidy for petroleum products sold to the public in UAE at Emarat stations, which lead to a sharp decline in its revenues and a negative net assets / equity. Therefore, the Government promised to provide Emarat with funding so that it can perform its normal activities.

Assessment of the Going Concern Assumption:

Preparing Emarat's financial statements on the assumption of going concern is appropriate due to the support provided by the Federal Government. However, Emarat should disclose in its financial statements the events and conditions which gave rise to substantial doubt in its ability to continue as a going concern, and the actions it took to address this situation, in the "Basis of Preparation".



Example 1.15 - Going Concern in Federal Entities

The Federal Government decided to merge two federal entities (The Federal Authority for Government Human Resources and the National Human Resources Development and Employment Authority) under a single government entity three months after the reporting date and before the separate financial statements of each entity were issued. Both entities will be completely restructured under the new government entity.

Assessment of the Going Concern Assumption:

Preparing the financial statements of each entity on the reporting date on the basis of liquidation would be appropriate due to the discontinuation of each entity's operations within twelve months of the reporting date, which should be disclosed in the "Basis of Preparation".

Consistency of Information



101. The presentation and classification of items in financial statements shall be maintained from one period to the next; unless:
- A. It is obvious, after a material change in the nature of the federal entity's operations or a review of its financial statements, that a different presentation or classification would be more appropriate, considering the accounting policies selection and application controls prescribed in FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors"; or
 - B. A FGAAS requires a change in presentation.
102. An acquisition, material sale or review of the presentation of financial statements may suggest that there is a need to present the same differently.



Example 1.16 - Consistency of Information

A federal entity may sell a controlled entity representing one of its most important controlled units, and the remaining economic entity mainly provides administrative and policy-related consultation services. In this case, the presentation of financial statements based on the main activities of the economic entity, as a financial entity, is unlikely to be appropriate for the new economic entity.

103. A federal entity shall change the presentation of its financial statements only if the new presentation provides reliable and more relevant information to users of financial statements and the new amended structure is likely to continue such that comparability is not impaired. When making such changes to presentation, a federal entity shall reclassify its comparative information in accordance with paragraphs 111 and 112.

Materiality and Aggregation



104. Each material class of similar items shall be presented separately in financial statements. Items of different nature or functions shall be presented separately unless they are immaterial. If certain items are immaterial, there is no need to meet a particular disclosure requirement in FGAAS.
105. Financial statements result from processing large numbers of transactions or other events aggregated according to their nature or function. The final stage of aggregation and classification is the presentation of condensed and classified information which form items in the statement of financial position, statement of financial performance, statement of changes in net assets / equity, cash flow statement or notes. If an item is individually not relatively material, it may be combined with other items in said statements or in notes. An item that is not relatively material enough to require separate presentation in statements may, nonetheless, be relatively material enough to be separately presented in notes.

Offsetting



106. Assets and liabilities and revenue and expense shall not be offset unless offsetting is required or permitted by another FGAAS.

107. It is important that assets and liabilities and revenue and expenses are reported separately; as offsetting in the statement of financial position or statement of financial performance (except where offsetting reflects the substance of the transaction or other event) undermines users' ability to understand the transactions and other events that have occurred and assess future cash flows of the federal entity. It is, nonetheless, worth mentioning that the measurement of assets minus assessment provisions, such as the provisions for inventory obsolescence and provisions for doubtful debts on receivables, is not offsetting.

Example 1.17 - Offsetting



- A. FGAAS 9 "Revenue from Exchange Transactions" defines revenue and requires it to be measured at the fair value of the consideration received or receivable, taking into account the amounts of any trade discounts and volume rebates allowed by the federal entity. In the course of its ordinary activities, a federal entity carries out other transactions that do not generate revenue but are incidental to the main revenue-generating activities, and the results of such transactions are presented, if such presentation reflects the substance of the transaction or event, by offsetting any revenue against the expenses related to the same transaction.
- B. Gains and losses from sale of non-current assets, including investments and operating assets, are reported by deducting the carrying amount of the asset and relevant selling expenses from the proceeds from the sale.
- C. Expenses related to a particular provision recognized in accordance with FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" and reimbursed under a contractual agreement with a third party may be netted against the relevant reimbursement.
- D. Foreign exchange gains and losses arising from held-for-sale financial instruments are offset, since they are similar transactions, but are reported separately if they are material.

108. FGAAS 2 "Cash Flow Statements" deals with the offsetting of cash flows.

Comparative Information



109. Except where otherwise required or permitted by a FGAAS, comparative information relating to the prior period shall be disclosed for all amounts reported in financial statements. Comparative information shall be included in descriptive information when it is relevant to understanding the financial statements of the current period.
110. In some cases, the aforementioned information provided by the financial statements for the prior period (s) remains relevant in the current period.



Example 1.18 - Comparative Information

Disclosure, in the current period, of the details of a legal dispute the outcome of which was still uncertain on the last reporting date and is yet to be resolved in the current period; as users benefit from knowing of the uncertainty on the last reporting date and the step taken during the period to resolve said uncertainty. Expenses related to a particular provision recognized in accordance with FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" and reimbursed under a contractual agreement with a third party may be netted against the relevant reimbursement.

Foreign exchange gains and losses arising from held-for-sale financial instruments are offset, since they are similar transactions, but are reported separately if they are material.



111. When the presentation or classification of items in financial statements is amended, comparative amounts shall be reclassified; unless reclassification is impracticable; and the federal entity shall disclose:

- A. The nature of the reclassifications;
- B. The amount of each reclassified item or class of items; and
- C. The reason for reclassification.



112. When it is impracticable to reclassify comparative amounts, a federal entity shall disclose:

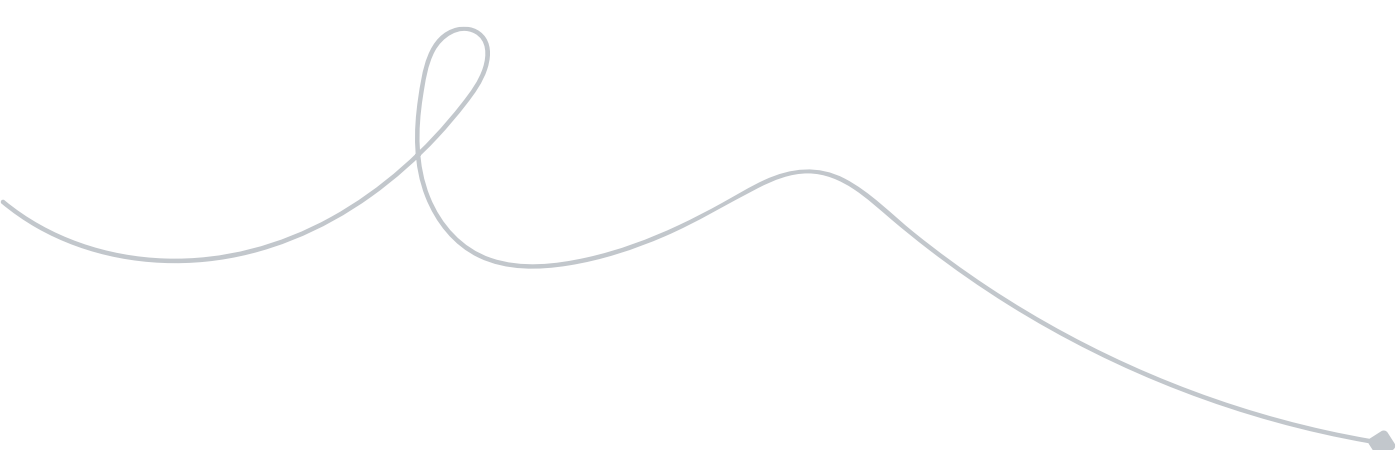
- A. The reason for not reclassifying the amounts; and
- B. The nature of adjustments that would have been made had the amounts been reclassified.

113. Enhancing inter-period comparability of comparative information helps users make and evaluate decisions, especially by allowing them to assess trends in financial information for prediction purposes. In some cases, it may be impracticable to reclassify comparative information for a particular prior period in order to achieve comparability with the current period as the financial data of the prior period may have been collected in a manner that does not allow reclassification or it may be impracticable to recreate information.

114. FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" deals with adjustments to comparative information when a federal entity changes an accounting policy or corrects an error.

Appendix A

1. A federal entity shall disclose the following (where applicable) in the notes:
 - A. The amount of dividends or similar distributions proposed or declared before financial statements are authorized for issue but not recognized as a distribution to owners during the period, and the relevant amount per share; and
 - B. The amount of any unrecognized cumulative preference dividends or similar distributions.



Standard 2 - Cash Flow Statements

Standard 2 - Cash Flow Statements

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 2 (IPSAS 2), which addresses cash flow statements. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

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Objective

1. The objective of this Standard is to set the bases for presenting cash flows through the cash flow statement which identifies:
 - A. The sources of cash inflows;
 - B. The items on which cash was expended during the reporting period;
 - C. The cash balance as at the reporting date;
2. This Standard addresses the following topics relating to the cash flow statement:
 - A. How to classify cash flows by operating, investing or financing activities;
 - B. How to report cash flows based on the classification of activities;
 - C. Preparing and presenting a cash flow statements, and how to present other topics such as non-cash transactions.

Scope



3. This Standard applies to federal entities covered by the Manual of (FGAAS) as detailed in the Introduction thereto.
4. The federal entities shall prepare a cash flow statement in accordance with the requirements of this Standard, and shall present it as an integral part of their financial statements for each period for which financial statements are presented.
5. Cash flows exclude movements between items that constitute cash or cash equivalents, because these components are part of the cash management of an entity rather than part of its operating, investing, and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Benefits of Cash Flow Information

6. Information about cash flows assists users of financial statements in:
 - A. Assessing a federal entity's cash flows;
 - B. Assessing an entity's compliance with laws and regulations (including approved budgets);
 - C. Making decisions about providing resources to, or entering into transactions with, a federal entity;
 - D. Predicting future cash requirements of a federal entity;
 - E. Assessing a federal entity's ability to generate future cash flows; and
 - F. Assessing a federal entity's ability to fund changes in the scope and nature of its activities.

7. A cash flow statement (when used in conjunction with other financial statements) provides information that enables users to assess changes in net assets / equity of a federal entity, its financial structure (including its liquidity) and its ability to alter the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of operating performance reported by various federal entities using different accounting treatments for the same transactions and other events.

Important Information Relating to Cash Flows

Cash and Cash Equivalents

8. A federal entity holds cash equivalents for the purpose of meeting short term cash commitments rather than for investment or other purposes . For an investment to be classified as a cash equivalent, it needs to be readily convertible to a specific amount of cash and be subject to insignificant risk of changes in value. Therefore, an investment is considered a cash equivalent only when it has short maturity (as defined in Definitions above, i.e. three months or less from the date of acquisition). Equity investments are also excluded from cash equivalents if they are not, in substance, cash equivalents.

Example 2.1 - Definitions of Cash and Cash Equivalents

Cash and Cash Equivalents

- A. Cash on hand, petty cash and cash in bank;
- B. Overdraft (repayable on demand);
- C. Short-term deposits;
- D. Bonds (short maturity).

Other Assets and Liabilities

- A. Loans;
- B. Security deposits;
- C. Long-term deposits;
- D. Retained cash;
- E. Bonds (long maturity).

9. Loans are generally considered financing activities. However, overdrafts that are payable on demand are, sometimes, considered an integral part of a federal entity's cash management; in which case, bank overdrafts are classified as a component of cash and cash equivalents. . A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.



Presentation of the Cash Flow Statement



10. A federal entity shall prepare a cash flow statement for the period, presenting cash flows by operating, investing and financing activities in the most appropriate manner for its activities. Classification by type of activity provides information that allows users to assess the financial impact of those activities on the entity and the amount of its cash and cash equivalents.
11. A transaction may include a number of cash flows that are classified differently by a federal entity.



Example 2.2 - Different Classifications of Cash Flows from a single Transaction

A federal entity borrowed AED 2,000,000 of which it repaid AED 1,080,000 during the current year. The interest component of the loan repayment amount for the year was set at AED 80,000.

In the federal entity's cash flow statements, a sum of AED 1,000,000 should be classified as part of the cash flows from financing activities, and sum of AED 80,000, which represents interest, as part of cash flows from operating activities; as it is taken into account when determining net surplus or deficit (and it may also be classified as financing cash flows; as it is a cost of obtaining financial resources).

Operating Activities

12. The amount of net cash flows arising from operating activities is a key indicator of the extent to which a federal entity's operations are financed:
 - A. By way of taxes (directly and indirectly); or
 - B. From receipts on goods and services provided by the federal entity.

The amount of net cash flows also helps demonstrate a federal entity's operating capability and its ability to settle liabilities, pay dividends or similar distributions to its owners and make new investments without recourse to external sources of financing.

13. The consolidated Federal Government operating cash flows provide an indication of the extent to which the current government has financed its current activities through taxation and charges. Furthermore, information about the specific components of historical operating cash flows is, in conjunction with other information, useful in forecasting future operating cash flows.
14. Cash flows from operating activities are primarily derived from the main cash-generating activities of a federal entity.



Example 2.3 - Examples of Cash Flows from Operating Activities

- A. Cash receipts from taxes, charges and fines;
- B. Cash receipts from grants or transfers and other appropriations;
- C. Cash receipts from royalties, fees, commissions and other revenue;
- D. Cash payments to beneficiaries of social benefit schemes;
- E. Cash payments to other federal entities or third parties to finance their operations (not including loans);
- F. Cash payments to suppliers of goods and services;
- G. Cash payments to and on behalf of employees;
- H. Cash receipts and payments of insurance premiums, claims annuities and other benefits under the federal entity's policy;
- I. Cash payments of taxes (for example, where applicable, local property tax or other taxes) in relation to operating activities;
- J. Cash receipts or payments from contracts held for dealing or trading purposes;
- K. Cash receipts or payments from discontinued operations;
- L. Cash receipts and payments related to settlement of litigations;
- M. Cash payments for construction or acquisition of assets held for lease to third parties and later held for sale, and cash receipts from leases and subsequent sale of said assets;
- N. Cash flows from the purchase or sale of securities traded or dealt in when the said securities and loans are held by the federal entity for trading purposes.

15. Where a federal entity is unable to separately identify appropriations or amounts authorised in the budget as relating to operating transactions or capital costs and projects or as financing transactions, said appropriations or amounts should be classified as cash flows from operating activities and this fact should be disclosed in the notes to the financial statements.

Investing Activities

16. A federal entity shall separately disclose cash flows from investing activities because they represent the extent to which cash is used for resources that contribute to federal entity's future service delivery. Only cash outflows leading to the recognition of an asset in the statement of financial position qualify for classification as investing activities.



Example 2.4 - Cash Flows from Investing Activities

- A. Cash payments to acquire property, plant and equipment, intangible assets and other long-term assets; including payments relating to recognitions of said assets;
- B. Cash receipts from sales of property, plant and equipment, intangible assets and other long-term assets;
- C. Cash payments to acquire financial assets (such as equity in other entities) and interest in joint ventures (other than payments for instruments considered to be cash equivalents as defined in this Standard or those held for dealing or trading purposes);
- D. Cash receipts from sales of financial assets (such as equity in other entities) and interest in joint ventures (other than cash receipts for instruments considered to be cash equivalents as defined in this Standard or those held for dealing or trading purposes);
- E. Cash advances and loans made to third parties;
- F. Cash receipts from repayment of advances and loans made to third parties.

Financing Activities



17. Separate disclosure of cash flows from financing activities assists in predicting future claims of providers of funds to a federal entity.



Example 2.5 - Examples of Cash Flows from Financing Activities

- A. Cash proceeds from issuing loans, bonds, mortgages and other short or long-term borrowings;
- B. Cash repayments of borrowed amounts;
- C. Cash payments from a lessee to reduce an outstanding liability relating to a lease.

Reporting Cash Flows

Reporting Cash Flows from Operating Activities



18. A federal entity shall report cash flows from operating activities using either:
- A. The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
 - B. The indirect method, whereby surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals, or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.
19. The direct method provides information that may be useful in estimating future cash flows and that is not available under the indirect method under which net cash flow from operating activities is determined by adjusting surplus or deficit for transactions of a non-cash nature, any deferrals, or accruals of past or future operating cash receipts or payments and items of revenue or expense associated with investing or financing cash flows. Under the direct method, information about major classes of gross cash receipts and gross cash payments may also be obtained from one of the following two sources:
- A. The accounting records of the federal entity; or
 - B. By adjusting operating revenues, operating expenses, and other items in the statement of financial performance for:
 - ✓ Changes during the period in inventory and operating receivables and payables;
 - ✓ Other non-cash items;
 - ✓ Other items the cash effects of which arise from investing or financing activities.

Example 2.6 - Cash Flow Statements - Operating Activities (Direct Method)

Cash Flows from Operating Activities	20X2	20X1
<i>Receipts</i>		
Taxes	x	x
Sales of Goods and Services	x	x
Grants	x	x
Interest Received	x	x
Other Receipts	x	x
<i>Payments</i>		
Employee Costs	(x)	(x)
Suppliers	(x)	(x)
Social Benefits	(x)	(x)
Interest Paid	(x)	(x)
Other Payments	(x)	(x)
Net Cash Flows from Operating Activities	x	x

20. Under this Standard, federal entities are encouraged to provide a reconciliation of the surplus / deficit arising from ordinary activities with the net cash flow from operating activities. Such reconciliation may be provided as part of the cash flow statement or in the notes to financial statements. Example 2.7 shows the way the reconciliation should be presented.

21. Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:
- Changes during the period in inventories and operating receivables and payables;
 - Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and non-controlling interests; and
 - All other items for which the cash effects are investing or financing cash flows.



Example 2.7 - Cash Flow Statements - Presentation of Cash Flows from Operating Activities (Indirect Method)

Cash Flows from Operating Activities	20X2	20X1
Surplus / Deficit for the period	x	x
Non-Cash Movements		
Depreciation	x	x
Amortization	x	x
(Decrease)/Increase in provisions	x	x
(Decrease)/Increase in payables	x	x
(Decrease)/Increase in social benefits liabilities	x	x
(Gains)/losses on sale of property, plant, and equipment	x	x
Decrease/(Increase) in other current assets	(x)	(x)
Decrease/(Increase) in receivables	(x)	(x)
Decrease/(Increase) in inventory	(x)	(x)
Decrease/(Increase) in pre-payments	(x)	(x)
Net Cash Flows from Operating Activities	x	x

Reporting Cash Flows from Investing and Financing Activities



22. A federal entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraph 23 are reported on a net basis.



Example 2.8 - Cash Flow Statements - Presentation of Cash Flows from Investing and Financing Activities

Cash Flows from Investing and Financing Activities	20X2	20X1
Cash Flows from Investing Activities	x	x
Purchase of Property, Plant and Equipment		
Proceeds from Sale of Property, Plant and Equipment	(x)	(x)

Example 2.8 - Cash Flow Statements - Presentation of Cash Flows from Investing and Financing Activities

Purchase of Intangible Assets	x	x
Purchase of Financial Assets	(x)	(x)
Purchase of Investments	x	x
Proceeds from Sale of Financial Assets	(x)	(x)
Proceeds from Sale of Investments	(x)	(x)
Distributions of Dividends Received	(x)	(x)
Interest Received	x	x
Net Cash Flows from Investing Activities	x	x
Cash Flows from Financing Activities	x	x
Proceeds from Borrowings	x	x
Repayment of Borrowings	x	x
	x	x
Net Cash Flows from Financing Activities	x	x

Reporting Cash Flows on Net Basis

23. A federal entity may report cash flows arising from the following operating, investing or financing activities on a net basis:

- A. Cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the federal entity;

**Example 2.9 - Examples of Cash Flows on a Net Basis**

Paragraph 23 (A) refers only to transactions where cash balances are controlled by the reporting federal entity. Examples of such cash receipts and payments include:

- A. The collection of taxes by one federal entity on behalf of another federal entity or other government party, not including taxes collected by a federal entity for its own use as part of a tax sharing agreement;
- B. Rent collected on behalf of, and paid over to, the owners of properties.

- B. Cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short.

**Example 2.10 - Examples of Cash Flows on a Net Basis**

Examples of cash receipts and payments include:

- A. The purchase and sale of investments;

Example 2.10 - Examples of Cash Flows on a Net Basis

- B. Other short-term borrowings, such as those which have a maturity period of three months or less.

Foreign Currency Cash Flows



24. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

25. A federal entity shall translate the cash flows of a foreign (controlled) entity at the exchange rates at the dates of the cash flows



26. Cash flows in a foreign currency are reported in accordance with (FGAAS) 4 "The Effects of Changes in Foreign Exchange Rates" which permits the use of an exchange rate that approximates the actual rate. For example, an average exchange rate for a period may be used for recording foreign currency transactions or translating the cash flows of a foreign controlled federal entity. (FGAAS) 4 "The Effects of Changes in Foreign Exchange Rates" does not permit the use of the exchange rate at the reporting date when translating the cash flows of a foreign controlled federal entity.

27. Unrealised profits and losses arising from changes in foreign currency exchange rates are not considered cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities.

Interest and Dividends or Similar Distributions



28. A federal entity shall separately disclose cash flows arising from received and due interest and dividends or similar distributions and shall classify each consistently from period to period as either operating, investing or financing activities.

29. Received and paid interest and received dividends or similar distributions may be classified as operating cash flows because they are taken into account when determining net surplus or deficit. The same may also be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

30. Paid distributions may be classified as a financing cash flow because they are a cost of obtaining financial resources. The same may also be classified as a component of cash flows from operating activities in order to assist users in determining a federal entity's ability to make these payments out of operating cash flows.

Taxes on Net Surplus



31. Currently, there are no taxes on federal entities' net surpluses. However, some federal entities may operate under laws and in jurisdictions that may impose tax on net surplus. Therefore, a federal entity shall separately disclose cash flows arising from taxes on net surplus which shall be classified as cash flows from operating activities, except when the same can be identified with particular financing and investing activities.

32. Paid taxes (if any, pursuant to paragraph 31) are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow from investing or financing activities, paid taxes are classified within investing or financing activities. When tax cash flows are allocated over more than one class of activity, the total amount of paid taxes is disclosed.

Investments in Controlled Entities, Associates and Joint Ventures

33. When recording an investment in an associate or a controlled or jointly controlled federal entity accounted for using the equity method, a federal entity shall limit its presentation in the cash flow statement to the cash flows between itself and the investee federal entities; such as dividends or similar distributions and advances.

Acquisition and Disposal of Controlled Federal Entities and Other Operating Units



34. The aggregate cash flows arising from acquisitions and from disposals of controlled federal entities or other operating units shall be presented separately and classified as investing activities.
35. A federal entity shall disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:
- A. Total purchase or disposal consideration;
 - B. The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;
 - C. The amount of cash and cash equivalents in the controlled federal entity or operating unit acquired or disposed of;
 - D. The amount of the assets and liabilities, other than cash and cash equivalents, recognised by the controlled federal entity or operating unit acquired or disposed of, classified by each major category.
36. A federal entity shall separately present the cash flow effect of acquisitions and disposals of controlled federal entities and other operating units as single group of items, together with the separate disclosure of the amounts of associated assets and liabilities, which helps distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities.
37. A federal entity shall, in the cash flow statement, present the total amount of the cash paid or received as purchase or sale price minus cash and cash equivalents acquired or disposed of.
38. Assets and liabilities, other than cash or cash equivalents, of a controlled federal entity or operating unit acquired or disposed of shall only be disclosed where the controlled federal entity or unit had previously recognised said assets or liabilities. For example, where a federal entity reporting under the cash basis is acquired by another federal entity, the federal entity would not be required to disclose the assets and liabilities (other than cash and cash

equivalents) of the controlled federal entity acquired as that entity would not have recognised non-cash assets or liabilities.

Noncash Transactions



39. A federal entity shall exclude investing and financing transactions that do not require the use of cash or cash equivalents from the cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a manner that provides all the relevant information about said investing and financing activities; because many investing and financing activities do not have a direct impact on current cash flows, but they affect the federal entity's net assets / equity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of the cash flow statement as these items do not involve cash flows in the current period.



Example 2.11 - Examples of Non-cash Transactions

Non-cash transactions include the acquisition of assets through the exchange of assets, the assumption of directly related liabilities or by means of a lease.

Disclosures

Disclosure of Components of Cash and Cash Equivalents



40. A federal entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.



Example 2.12 - Disclosure of Components of Cash and Cash Equivalents and Reconciliation of Amounts

Below is an example of disclosures related to cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, cash with banks and investments in financial market instruments. Cash and cash equivalents included in the cash flow statement represent the following amounts in the statement of financial position:

	20X2	20X1
Cash on Hand and Balances with Banks	x	x
Short-term Investments	x	x
	x	x

41. A federal entity shall disclose its accounting policy for determining the components of cash and cash equivalents in accordance with (FGAAS) 1 "Presentation of Financial Statements".

Example 2.13 - Disclosures - Significant Accounting Policies

Following is an example of accounting policies related to cash and cash equivalents that are disclosed in the notes to financial statements:

Cash and cash equivalents consist of cash on hand, cash with banks, demand deposits and highly liquid investments with maturity periods of 3 months or less, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

42. The effect of any change in the accounting policy for determining components of cash and cash equivalents; for example, a change in the classification of financial statements previously considered to be part of a federal entity's investments; is treated in accordance with (FGAAS) 3, "Accounting Policies, Changes in Accounting Estimates and Errors."

Other Disclosures



43. In addition to comments provided by its management, a federal entity shall disclose the amount of material cash and cash equivalent balances that are not available for use by the economic entity.



Example 2.14 - Cash and Cash Equivalents Balances That Are Not Available for Use by the Economic Entity

Cash and cash equivalents balances held by a controlled entity operating in a jurisdiction that enforces exchange controls or other legal restrictions such that balances are not available for general use by the group or other controlled entities.

44. A federal entity may disclose additional information that may be beneficial to users in understanding the financial position and liquidity of the entity. This Standard encourages the disclosure of such information along with a description in notes that may include:
- A. The amount of undrawn borrowing facilities that may be available for future operating activities and to settle liabilities, indicating any restrictions on the use of these facilities;
 - B. The amount and nature of any cash balances that are subject to restrictions.



Example 2.15 - Disclosures of Additional Information

Following is an example of additional information that may be beneficial to users in the event of undrawn borrowing facilities that are available but are subject to restrictions on use:
A federal entity has not drawn available borrowing facilities for the sum of x , of which x should be used in infrastructure projects.



Standard 20 - Related Party Disclosures

Standard 20 - Related Party Disclosures

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 20 (IPSAS 20) which addresses the requirements of related party disclosures. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the federal entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the federal entity's financial position and performance.
2. This Standard primarily addresses the following topics:
 - A. Identifying the parties which control or significantly influence a federal entity;
 - B. Determining the information to be disclosed about transactions with those parties.

Scope



3. This Standard applies to federal entities covered by the Manual of (FGAAS) as detailed in the Introduction thereto.

Identifying Related Parties

Close Family Members



4. Professional judgement will be necessary in determining whether an individual should be identified as a close member of the family of an individual for purposes of application of this Standard. A federal entity shall identify close members of the family of an individual as follows:
 - A. A spouse, dependent child or relative living in the same household as the individual covered by this Standard;
 - B. A grandparent, parent, nondependent child, grandchild, brother or sister;
 - C. A son-in-law, daughter-in-law, a parent-in-law, brother-in-law or sister-in-law.

Key Management Personnel



5. Key management personnel include all directors or members of the governing body that has the authority and responsibility for planning, directing and controlling the activities of the federal entity.

6. Where a federal entity is subject to the general oversight of an elected or appointed representative of the relevant authority in the governing body of the government to which the federal entity belongs, that person shall be included in key management personnel if the oversight function includes the authority and responsibility for planning, directing and controlling the activities of the federal entity. Advisors of such representatives may be deemed to be key management personnel if they have a special working relationship with the individual who has control over the federal entity and, therefore, have access to privileged information and may also be able to exercise indirect control or significant influence over the federal entity. Personal judgment is required in assessing whether an individual is a key advisor and whether that advisor satisfies the definition of key management personnel, or is a related party
7. The governing body has the authority and responsibility to plan and control the activities of the federal entity, in addition to the achievement of the federal entity's overall objectives. In some jurisdictions, civil servants will not have sufficient authority and responsibility to qualify as key management personnel (as defined by this Standard) in the case of Federal Government. In such cases, key management personnel will consist of those elected members of the relevant authority of the governing body who have the greatest responsibility before the government (such as ministers).
8. The senior management group of an economic entity may comprise individuals from both the controlling entity and other entities that collectively make up the economic entity.
9. Remunerations of key management personnel include salaries paid to them for services provided to the federal entity in their capacity as members of the relevant authority of governing body or as employees.



Example 20.1 - Examples of Components of Remunerations of Key Management Personnel

Benefits directly or indirectly provided by a federal entity for service in any capacity other than an employee or member of the relevant authority of the governing body do not satisfy the definition of remunerations of key management personnel under this Standard. Nonetheless, a government entity shall disclose certain types of said other benefits. Any consideration provided solely as a reimbursement for expenses incurred by said individuals for the benefit of the federal entity, such as accommodation costs associated with business trips, shall be excluded from remunerations of key management personnel.

Related Parties



10. When considering each possible related party relationship, attention should be directed to the substance of the relationship, and not merely its legal form. Therefore, the following (without limitation) shall not be deemed related parties despite the legal form:
 - A. A federal entity with which the relationship is solely that of an agency; or
 - B. Providers of finance.
11. When two federal entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that said person would be able to influence the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.
12. Related party relationships may arise when an individual is a member of the relevant authority of the governing body or is involved in the financial and operating decisions of the federal entity. Related party relationships may also arise through external working relationships between the federal entity and the related party, and such relationships will often involve a degree of economic dependency.
13. Economic dependency occurs when one federal entity becomes dependent on another federal entity for a significant volume of its funding or sale of its goods and services. Economic dependency does not, in its own, lead to control or significant influence and is therefore unlikely to give rise to a related party relationship. Accordingly, a single customer, supplier, concessionaire, distributor, or general agent with whom a federal entity transacts a significant volume of business will not be a related party merely by virtue of the resulting economic dependency. However, economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of economic dependence on a relationship. When a federal entity is economically dependent on another party (another federal entity or third party), it should disclose the existence of such dependency.
14. The definition of related party includes private entities owned by key management personnel and close family members of such individuals in a federal entity. The definition of related party also includes cases where one party has the ability to exercise significant influence over the other party. An individual or federal entity may be given oversight responsibility for another federal entity, which gives said individual or federal entity significant influence, but not control, over the financial and operating decisions of the other federal entity. For the purposes of this Standard, the definition of significant influence includes federal entities subject to joint control - For more details on joint operations and joint control, please refer to (FGAAS) 37 "Joint Arrangements".

Related Party Transactions

Aspects of Related Party Transactions



15. Related party relationships arise throughout government entities because:
 - A. Federal entities are subject to the overall direction of the executive government or relevant authority of the governing body of elected or appointed officials, and work together to achieve government policies;
 - B. Government departments and agencies often perform the activities necessary for the achievement of different components of their responsibilities and objectives through separately controlled federal entities, and through federal entities over which they have significant influence;
 - C. Ministers or elected members of the relevant authority of the governing body exert significant influence over the operations of a particular government entity or agency.
16. Disclosure of related parties and the relationships between them is necessary for accountability purposes and enables users to better understand the financial statements of a federal entity because:
 - A. Related party relationships can influence the way in which a federal entity works with other entities towards achieving its individual objectives, and the way in which it cooperates with other entities towards achieving collective or common objectives;
 - B. Related party relationships might expose a federal entity to risks or provide opportunities that would not have existed in the absence of such relationship;
 - C. Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms to those that would normally be available to unrelated parties. This occurs frequently in government departments and agencies where goods and services are transferred between them at less than full cost as part of normal operating procedures towards the achievement of the objectives of the federal entity and the government. The Government and federal entities are expected to use resources efficiently, effectively and in the manner intended, and to deal with public funds with utmost integrity. The existence of related party relationships means that one party can control or significantly influence the activities of the other; which provides the opportunity for transactions to be carried out to the advantage of one party at the expense of another.
17. Disclosure of certain types of related party transactions and the terms on which they were conducted helps users assess the impact of said transactions on the financial position and performance of a federal entity and its ability to deliver agreed services. This disclosure also ensures that the entity is transparent about its dealings with related parties.



Example 20.2 - Types of Related Party Transactions

Following are examples of cases where related party transactions may give rise to disclosures by the reporting federal entity under this Standard:

- A. Service delivery or receipt;
- B. Purchase or transfer / sale of (finished or unfinished) goods;
- C. Purchase or transfer / sale of property and other assets;
- D. Leases;
- E. Finance (including loans, capital contributions, grants; whether in cash or in kind and other forms of financial support including cost sharing arrangements);
- F. Guarantees and commitments

Remunerations of Key Management Personnel

18. Key management personnel hold positions of responsibility within a federal entity. They are responsible for the strategic direction and operational management of a federal entity and are entrusted with significant authority. Their salaries are often established by law or an independent court or other body that is independent of the federal entity. However, their responsibilities may enable them to influence the benefits of office that flow to them or their related parties. This Standard requires certain disclosures to be made about:

- A. Remunerations of key management personnel and close members of their families during the reporting period;
- B. Loans made to them;
- C. Considerations provided to them for services they provide to the federal entity other than as members of the relevant authority of the governing body or as employees. In addition, minimum transparency shall be applied to the remunerations of key management personnel and their direct relatives.

Materiality

19. (FGAAS) 1 "Presentation of Financial Statements" requires the separate disclosure of material items. The materiality of an item may be determined with reference to the nature or size of that item. When assessing the materiality of related party transactions, the nature of the relationship between the federal entity and the related party and the nature of the transaction itself may mean that said transaction is material regardless of its size.

Disclosures



20. This Standard requires disclosure of information and transactions relating to certain classes of related parties. In particular, attention is focused on the federal entity's transactions with its directors, members of its governing body and its senior management group; especially their remunerations and loans; because:

- A. The fiduciary responsibilities of directors, members of the governing body and senior management group;
- B. The extensive powers they have over the utilisation of the federal entity's resources. In some jurisdictions, similar requirements are included in the laws and regulations in place in federal entities.



21. Other (FGAAS) also require disclosure of related party transactions, including:

- A. (FGAAS) 1 "Presentation of Financial Statements", which requires disclosure of amount received from and paid to controlled federal entities, associate federal entities and other related parties.
- B. (FGAAS) 34 "Separate Financial Statements" and (FGAAS) 35 "Consolidated Financial Statements", which require disclosure of relationships whenever there is control; regardless of transactions.
- C. (FGAAS) 36 "Investments in Associates and Joint Ventures", which requires disclosure of a list of associate federal entities.

Disclosure of Related Party Transactions



22. In transactions between related parties other than transactions that occur within a normal supplier or client / recipient relationship on terms more or less favorable than those which it is reasonable to expect the federal entity would have adopted if dealing with that individual or federal entity on a commercial in the same circumstances, the federal entity should disclose:

- A. A description of the nature with the related parties involved in said transactions. For example, a description of whether the relationship is with the controlling federal entity, controlled federal entities, jointly controlled federal entities or key management personnel;
- B. A description of the related party transactions within each broad class of transactions and an indication of the volumes of the classes, either as a specific cash amount or as a proportion of that class of transactions or balances, or both;
- C. A summary of the general terms of transactions with related parties, including disclosure of how these terms differ from those normally associated with similar transactions with unrelated parties;
- D. Amounts or appropriate proportions of outstanding items.



Example 20.3 - Disclosure of Information about Transactions between Federal Entities

Federal entities transact extensively with each other on a daily basis. These transactions may occur at cost, less than cost or free-of-charge. For example, a federal entity of administrative services may provide office accommodation free-of-charge to another entity, or a federal entity may act as a purchasing agent for another federal entity, and some models of government, it may be possible to recover more than the full cost of service delivery. Departments are related parties because they are subject to joint control and these transactions satisfy the definition of related party transactions. However, disclosure of information about transactions between these federal entities is not required when:

Transactions are consistent with normal operating relationships between federal entities;

- A. Are carried out on terms that are considered normal for such transactions in such circumstances.
- B. The exclusion of related party transactions from the disclosure requirements prescribed in paragraph 22 reflects the fact that federal entities work together towards achieving common objectives and acknowledges that federal entities in different jurisdictions may use different service delivery mechanisms. This Standard requires disclosure of related party transactions when said transactions are carried out in accordance with parameters than the operating parameters established in the jurisdiction.

23. Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary to provide relevant and reliable information for decision making and accountability purposes.
24. Disclosure of information about related party transactions between said statements present information about the controlling federal entity and controlled federal entities as a single federal entity. Related party transactions that occur between federal entities shall be eliminated upon consolidation in accordance with (FGAAS) 34 "Separate Financial Statements and (FGAAS) 35 "Consolidated Financial Statements". Transactions with associate federal entities accounted for under the equity method shall not be eliminated and, therefore, require separate disclosure as related party transactions.

Disclosure - Key Management Personnel

25. A federal entity shall disclose the following:
 - A. The aggregate remuneration of key management personnel and the number of individuals ; determined on a full time basis and receiving remuneration within this class; separately showing main classes of key management personnel along with a description of each class. Key management personnel are appointed on a full or part time basis and the number of individuals disclosed as receiving remuneration on a full time equivalent basis should be assessed. Federal entities shall provide separate disclosures of main grades of key management personnel.

- B. The total amount of all other remunerations and compensations paid by the federal entity to key management personnel and close members of their families during the reporting period; separately showing total amounts paid to:
- ✓ Key management personnel;
 - ✓ Close members of their families.
- C. In respect of loans that are not widely available to individuals other than key management personnel and loans that are not widely known to the public, for each member of key management personnel and each close member of their families:
- ✓ The volume of loans provided during the period and their respective terms at the time;
 - ✓ The amount of loans repaid during the period;
 - ✓ The balance of all loans and receivables at the end of the reporting period;
 - ✓ Where an individual is not a director or member of the relevant authority of the governing body or senior management group, the relationship of said individual to other individuals or to the group.
26. Paragraph 22 of this Standard requires the disclosure of related party transactions which occur other than on A “commercial basis” consistent with the operating conditions established for the federal entity. This Standard also requires the disclosure of information about certain transactions with key management personnel identified in paragraph 25, whether or not they occur on a commercial basis consistent with the operating conditions in place in the federal entity.
27. Remunerations of key management personnel may include a set of direct and indirect benefits. Where the cost of these benefits is determinable, that cost shall be included in the total remuneration disclosed. Where the cost of these benefits is not determinable, a best estimate of the cost to the federal entity shall be made and included in the total remuneration disclosed. For example, Guidance on the measurement of employee benefits can be found in (FGAAS) 39 “Employee Benefits.” When non-cash remunerations that are reliably measurable are included in the total amount of remuneration of key management personnel disclosed for the period, disclosure shall be made in the notes to the financial statements on the basis of measurement of the non-cash remunerations.



Standard 24 - Presentation of Budget Information in Financial Statements

Standard 24 - Presentation of Budget Information in Financial Statements

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 24 (IPSAS 24) which provides for the presentation of budget information in financial statements. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

The Standard for the Presentation of Budget Information in Financial Statements - Table of Contents

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Objective



1. This Standard requires a comparison of budget and actual amounts arising from budget execution in the financial statements of a federal entity that makes its approved budget publicly available such that the entity is responsible and, therefore, held publicly accountable. This Standard also requires the disclosure of the reasons for material differences between budget and actual amounts such that the federal entity can meet its accountability obligations and enhance the transparency of its financial statements by:
 - Demonstrating its compliance with the approved budget for which it is held publicly accountable; and
 - Demonstrating its financial performance in achieving budgeted results; where the budget and financial statements are prepared on the same basis.
2. This Standard primarily addresses the following topics:
 - A. The definition of approved budgets;
 - B. The basis for presenting and comparing budget and actual amounts;
 - C. How to determine a comparable basis;
 - D. Presentation and disclosure requirements relating to the presentation of the budget in financial statements.

Scope

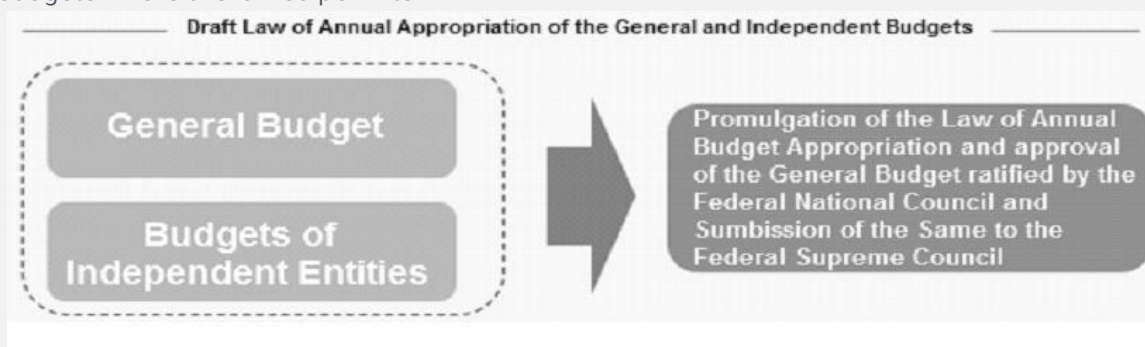


3. This Standard applies to federal entities covered by the Manual of (FGAAS), as detailed in the Introduction thereto, which are required, or elect to, make their approved budgets publicly available. However, this Standard, on its own, does not require any federal entity to make its approved budgets publicly available; nor does it require a federal entity to disclose in its financial statements information about an approved budget that is not publicly available or make any comparisons between its budget and financial statements.
4. Approved budgets will be compiled to encompass all the activities controlled by a federal entity. In other cases, separate approved budgets relating to certain activities, groups of activities or federal entities included in the financial statements of the UAE Federal Government, may be required to be made publicly available.



Example 24.1 - Compiled and Separate Budgets

The General Budget of the Federal Government represents the financial programme towards achieving socio-economic development through efficient allocation and utilisation of resources within the framework of the Federal Strategy. The General Budget of the Federal Government encompasses several government entities, but service federal entities may have independent budgets where the law so permits.



Approved Budgets

5. An approved budget reflects the revenues or receipts expected to arise in the annual or multi-year budget period based on current plans and the anticipated economic conditions during that budget period, as well as expenses or expenditures approved by the relevant legislative authority.
6. An approved budget differs from prospective financial information; as it cannot be considered a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place.
7. Once a budget is approved, the federal entity shall comply with the legal and regulatory controls concerning by spending within budget. The federal entity shall limit its expenditure to the appropriations allocated to it in the approved budget as per item-specific provisions. Therefore, the authority established in the approved budget is generally considered the legal limit within which the federal entity must operate.
8. If a budget is not approved prior to the beginning of the budget period, the legislative authority may approve temporary monthly appropriations equal to one twelfth of the corresponding amount appropriated for the previous fiscal year.
9. The original budget may include residual appropriated amounts automatically carried over from prior years by law.





Example 24.2 -Appropriations from Prior Years in the Original Budget

An appropriation of AED 10,000,000 was approved in the budget of the Ministry of Public Works for 2011 relating to the appointment of a contractor to construct a particular building within the first six months of 2011. However, because it is engaged in other projects in 2011, the Ministry of Public Works was unable to conclude the contract with said contracts on time; as it was concluded in the third quarter of 2011 and it was agreed to commence construction in the beginning of 2012. Therefore, the Ministry decided to include the previously approved appropriation from the 2011 budget for AED 10,000,0000 in the 2012 budget as per the action plan and in accordance with the law.



10. Subject to appropriate legal or legislative approvals, it may be necessary to amend the original budget in some cases; including, but not limited to:
 - A. Where there is a need for supplemental appropriations to cover expenses that were not envisaged in the original budget and, therefore, require amendment of the original budget;
 - B. Where there is a shortfall in budgeted revenues during the period and transfers between budget heads or items may be necessary to accommodate funding priorities during the fiscal period; or
 - C. In cases requiring fiscal discipline, where funds appropriated to a federal entity or particular activity can be cut down from the amount originally appropriated for the period and included in the original budget.



11. The final budget shall include all authorised changes and amendments and is often referred to as the "Final Budget".
12. In many cases, the final budget would be the same as actual amounts due to constant control of budget execution during the period and progressive revision of the budget to reflect changing terms, circumstances and experiences during the reporting period. Paragraph 26 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budgets. The disclosures prescribed in paragraphs 14 and 26 will enhance public accountability of federal entities in terms of their performance and compliance with the approved budget.

Presentation of a Comparison of Budget and Actual Amounts



13. A federal entity which prepares and presents its financial statements on an accrual basis and is required, or elects to, make its approved budget publicly available, shall present a comparison of budgeted and actual amounts as an additional separate financial statement; unless the general budget is prepared on an accrual basis; in which case, the federal entity may present a comparison of budgeted and actual amounts as additional budget columns in the financial statements presented in accordance with (FGAAS) as described in Appendix "A" to this Standard.



14. A federal entity shall separately present a comparison of budgeted and actual amounts for each level of legislative oversight. The following shall be presented:

- A. The original and final budget amounts;
- B. The actual amounts on a comparable basis to the budget;
- C. An explanation, in the notes, of material differences between the budget for which the federal entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements; in which case, a cross reference to said documents shall be made in the notes to the financial statements.

Example 24.3 - Public Documents that May be Issued in Conjunction with Financial Statements and May Include an Explanation of Material Differences between Budget and Actual Amounts



- ✓ The report on federal entity's management discussions and analysis;
- ✓ Operations review report; or
- ✓ Other reports which provide explanations regarding the performance and achievements of the federal entity during the period.

15. Presentation of the original and final budget amounts and actual amounts on a comparable basis in the financial statements would enable users of the financial statements to determine whether resources were obtained and used in accordance with the approved budget, and understand the causes of material differences; which enhances a federal entity's public accountability.

16. A federal entity shall present the differences between actual amounts and amounts in the original or final budget (often referred to in accounting as "variance") in the financial statements.

17. Legislation, law or any other authority will often provide a federal entity that is required to make both its original and final budgets publicly available with guidance to which said federal entity can refer to determine with an explanation of material differences between the

original budget and actual amounts or between the final budget and actual amounts is necessary (in accordance with paragraph 14 (C)).

Example 24.4 - Absence of Guidance for a Federal Entity with respect to determining material differences between budgeted and actual amounts

In the absence of guidance for a federal entity with respect to determining material differences between budgeted and actual amounts, material differences may be determined by:

- ✓ Focusing on the federal entity's performance against the original budget by determining the differences between original budget and actual amounts; or
- ✓ Focusing on compliance with the final budget by determining the differences between final budget and actual amounts.

18. Where an approved budget is only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 14 will only apply to the entities or activities described in the approved budget.



Example 24.5 - Activities that are Not Made Publicly Available in the Budget

The financial information relating to the budget of certain activities or programmes of the Ministry of Interior might not be made publicly available due to confidentiality or the strategic nature of the objectives.

Presentation and Disclosure



19. When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented. In order to avoid any misinterpretation of financial information, a federal entity may explicitly clarify in the financial statements that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis. Appendix "A" to this Standard explains the presentation and disclosure requirements when the budget and financial statements are prepared on a comparable basis.
20. The statement of comparison of budget and actual amounts is a component of financial statements as described in (FGAAS) 1 "Presentation of Financial Statements".

Level of Aggregation



21. Budget documents may provide many details about particular activities or programmes of a federal entity; or even about federal entities (from Federal Government perspective). These details are often aggregated into main budget items for presentation to, and approval by, the legislative body or other authoritative body. The aggregation of the details of activities or programs may sometimes be necessary to avoid financial information overload and reflect relevant levels of legislative or other authoritative body oversight



22. When determining the level of aggregation of details of activities and programmes, a federal entity shall rely on professional judgments after considering the qualitative characteristics to be met by the information included in financial statements as provided for in paragraph 24 of this Standard.
23. When classifying budget items under groups to ensure effective and clear comparison during the disclosure of budget information and actual amounts, a federal entity shall make disclosures in a manner that is consistent with the manner in which activities or programmes are aggregated into main budget items for approval by the appropriate legislative authority.



Example 24.6 - Aggregation of Budget Details into Broad Classes

Main budget groups of the Ministry of Finance (without limitation):



These groups include the details of various items classified according to their nature. The Ministry of Finance may monitor the execution of its budget by comparing budget and actual amounts; provided that actual amounts are classified into groups consistently with the manner in which items are aggregated into main budget groups.

24. The information included in financial statements must meet qualitative characteristics such that they are relevant to users of financial statements and reliable. Qualitative characteristics are discussed in more detail in (FGAAS) 3 "Accounting Policies, Changes in Accounting Estimates and Errors".
25. A federal entity may present additional budget information, including information about its service achievements, in certain documents other than financial statements. Financial statements should preferably include cross references to said documents in order to link budget and actual data to non-financial budget data and service achievements.

Changes from Original to Final Budgets



26. A federal entity shall provide an explanation of whether changes between the original and final budgets are a consequence of reallocation within the budget, or other factors such as changes in the indicators of the original budget, including changes in Federal Government's policy.

This explanation shall be made by:

- A. Disclosure in the notes in financial statements; or

- B. Inclusion in a report issued before, at the same time as or in conjunction with the financial statements; in which case, a cross reference to said report shall be made in the notes to the financial statements.



Example 24.7 - Separate Reports on Financial Statements Explaining changes between the Original and Final Budgets

- ✓ Budget execution results report;
- ✓ Report on federal entity's management discussions and analysis;
- ✓ Operations review report; or
- ✓ Other reports which provide explanations regarding the financial performance with respect to budget execution.



27. A final budget shall include all changes approved in accordance with legislative or legal procedures by the authority responsible for approving amendments to the original budget.

Comparable Basis

28. A federal entity shall present a comparison of budget and actual amounts on the same accounting basis and same classification basis for the period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself.
29. As provided for in paragraph 4 of this Standard, the separate budgets of all controlled federal entities shall be recompiled for presentation in the Federal Government consolidated financial statements in accordance with the requirements of this Standard; after ensuring that the budgets compiled for presentation and disclosure purposes are those approved by the legislative authorities and, therefore, do not include any unauthorised changes.



Example 24.8 - Determining a Comparable Basis

When the bases used for the budget and actual amounts differ, information about compliance with the budget is disclosed in the financial statements on the same bases as the budget itself. Suppose that in 2020 an independent federal entity prepares its financial statements for the year ending December 31, 2020 on the accrual basis of accounting in accordance with UAE (FGAAS), while using the cash basis in preparing its budget for the same year.

Determining a comparable basis:

Based on the above, the federal entity shall, when disclosing the comparison of budget and actual amounts, use the cash basis; which requires necessary adjustments to amounts included in the financial statements on the accrual basis by, for example but without limitation: Re-arranging the amounts, re-classifying the amounts or accommodating timing variations.



Example 24.9 - Determining a Comparable Basis

The Federal Government General Budget is prepared in conformity with the Government Finance Statistics (GFS) Manual such that it includes all federal entities and activities.

Multi-year Budgets

30. A federal entity may be allowed to make publicly available approved multi-year budgets, rather than annual general budgets. A multi-year budgets comprise a set of annual budgets or annual budget targets. The approved budget for each annual period reflects the application of the budgetary policies associated with the multi-year budget for that period. In some cases, the multi-year budget may allow unused appropriations to be carried forward from one year to another.

**Example 24.10 - Multi-year Budget**

All federal entities may, by resolution of the Council of Ministers, be required to prepare a draft budget for a medium-term plan; the number of years covered by which is specified in said Council of Ministers resolution; provided that it includes estimates of revenues and expenses for each individual year. Appropriations of said draft budget are established by resolution of the Council of Ministers.

31. In the event of a multi-year budget, the determination of the original and final budgets depends on the manner in which the same is approved.

**Example 24.11 - Multi-year Budget**

Further to Example 24.10, when preparing the Draft Law of Appropriations of the General Budget for each year of the medium-term plan, any amendments to the budget of said plan that are approved by the Council of Ministers should be taken into account.

Disclosure of Budgetary Basis, Period and Scope in Notes

32. A federal entity shall disclose in the notes to its financial statements the budgetary basis, adopted classification basis and approved budget period. Such disclosure would help users of financial statements understand the relationship between the budget and accounting information included in financial statements.
33. A federal entity shall explain in the financial statements prepared in accordance with (FGAAS) whether the budget is prepared on basis other than the accrual basis of accounting.
34. A federal government shall disclose the formats and classification mechanism adopted in the presentation of its approved budget; as budgetary items may be classified into groups on the same basis as is adopted in financial statements.



Example 24.12 - Classification of Budgetary Items

Budgetary items may be classified into groups in a manner that is different to the one used in financial statements. For example, budgetary items may be classified into groups by:

- ✓ The economic nature of items (such as, but not limited to: Employee compensations; goods and services supplies);
- ✓ Function (such as, but not limited to: Defense; education; social protection; health; general public services; public order and public safety affairs);
- ✓ Specific programmes (such as, but not limited to: Poverty reduction; control of contagious diseases); or
- ✓ Activities associated with performance targets (such as, but not limited to: A batch of military personnel graduating from an educational programme).

35. Where the approved budget period is the same as the period covered by financial statements, disclosure of the period covered by the approved budget would serve a confirmation role, particularly when preparing interim budgets, financial statements and interim reports.



36. The Federal Government shall identify in the notes to the consolidated financial statements the federal entities included in the approved federal general budget.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements



37. Based on paragraph 28 of this Standard, a federal entity shall reconcile the actual amounts presented on a comparable basis with the budget to the actual amounts presented in the financial statements; identifying any differences in the basis, timing and entity (as applicable). Such reconciliation would better enhance the federal entity's public accountability obligation by identifying the main sources of differences between actual amounts on budget basis and amounts recognised in financial statements.
38. A federal entity shall disclose a reconciliation of net cash flows from operating, investing and financing activities when preparing an approved budget on other than the accrual basis of accounting. Such reconciliation may be disclosed in the statement of comparison of budget and actual amounts or in the notes to financial statements. Appendix "A" to this Standard explains the presentation and disclosure requirements when preparing the budget and financial statements on a comparable basis.



39. Differences between the actual amounts presented on a comparable basis with the budget and the actual amounts presented in the financial statements can usefully be classified as follows:
- A. Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, if the budget is prepared on a cash basis and the financial statements are prepared on an accrual basis;
 - B. Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements;
 - C. Entity differences (as applicable), which occur when the budget does not include programmes or entities that are part of the federal entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for the presentation of financial statements and the budget. For example, social benefits are limited to cash transfers. The GFS classification of social benefits is wider, and includes some individual services provided by the federal entities.



40. This Standard does not require a federal entity to disclose information related to prior year's budgets for comparison purposes, nor about notes related to the presentation of prior period differences.



Example 24.13 - Determining a Comparable Basis

Further to Example 24.8, below is an example of the statement of comparison of budget and actual amounts on a cash basis:

Statement of Comparison of Budget and Actual Amounts	Original Budget AED	Final Budget AED	Actual Amounts on a Comparable Basis (AED)	Differences between Final Budget and Actual Amounts (AED)
Cash receipts				
Service charges	x	x	x	x
Concessions	x	x	x	x
Contributions from Local UAE governments	x	x	x	x
Dividend distributions	x	x	x	x
Currency interest and profits	x	x	x	x
Other revenues	x	x	x	x
Total cash receipts	x	x	x	x
Cash payments				
Employee compensations	(x)	(x)	(x)	(x)
goods and services supplies	(x)	(x)	(x)	(x)
Subsidies	(x)	(x)	(x)	(x)
Social benefits	(x)	(x)	(x)	(x)
Grants	(x)	(x)	(x)	(x)
Non-financial assets	(x)	(x)	(x)	(x)
Other expenses	(x)	(x)	(x)	(x)
Total cash payments	(x)	(x)	(x)	(x)
Net cash receipts/payments	y	y	y	y

Below is an example of a note related to the reconciliation of budget and actual amounts, explaining the differences related to the cash flow statements:

Reconciliation of budget and actual amounts in financial statements	Statement of Cash Flows			
	Operating Activities	Investing Activities	Financing Activities	Total in AED
Actual amounts on comparable basis as in the "Statement of Comparison of Budget and Actual Amounts"	xxx	xxx	xxx	xxx
Basis differences	xxx	xxx	xxx	xxx
Timing differences	xxx	xxx	xxx	xxx
Actual amounts in the "Statement of Cash Flows"	xxx	xxx	xxx	xxx

Appendix A - Presentation and Disclosure Requirements when the Budget and Financial Statements are Prepared on the Same Basis



Appendix A - Presentation and Disclosure Requirements when the Budget and Financial Statements are Prepared on the Same Basis

This Appendix explains presentation and disclosure requirements when the budget is prepared on the same basis used in preparing the financial statements (for example, where the general budget is prepared on an accrual basis).

Comparison of Budget and Actual Amounts

A federal entity which prepares and presents financial statements on an accrual basis and is required, or elects to, make its approved budget publicly available, shall present a comparison of budgeted and actual amounts either as an additional separate financial statement in the financial statements or as additional budget columns in the financial statements presented in accordance with (FGAAS).

Additional columns may be added to the primary financial statements presented in accordance with (FGAAS). Said additional columns shall identify original and final budget amounts and, if the federal entity so chooses, differences between the budgeted and actual amounts.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

A federal entity shall reconcile the actual amounts presented to the actual amounts presented in the financial statements; identifying any differences in the basis, timing and entity (as applicable). Such reconciliation would better enhance the federal entity's public accountability obligation by identifying the main sources of differences between actual amount on budget basis and amounts recognised in financial statements.

Where the budget is prepared in accordance with the same accounting basis as that used in preparing the financial statements, only the differences between actual amounts in the budget and corresponding amounts in the financial statements shall be identified. No reconciliation is required when:

- A. The budget is prepared for the same period;
- B. The budget includes the same entities as in the financial statements; and
- C. The same presentation method as in the financial statements is adopted.

Where there are any differences in any of (A), (B) or (C), and despite the adoption of the same accounting basis in the budget and financial statements alike, appropriate reconciliations shall be made to show timing, presentation or entity differences (as applicable)



Standard 14 - Events after the Reporting Date

Standard 14 - Events after the Reporting Date

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 14 (IPSAS 14) which addresses events after the reporting date. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

The Standard for Events after the Reporting Date - Table of Contents

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Objective



1. The objective of this Standard is to prescribe when a federal entity should adjust its financial statements for events after the reporting date, and the disclosures that should be provided about the date on which the financial statements were authorised for issue and events after the reporting date.
2. This Standard primarily addresses the following topics:
 - A. Distinction between the date of preparation of financial statements and the date of authorisation of for issue;
 - B. The events upon the occurrence of which a federal entity is required to adjust its financial statements (Adjusting Events);
 - C. Events after the reporting date upon the occurrence of which a federal entity is not required to adjust its financial statements (Non-adjusting Events);
 - D. Determining and examining a federal entity's going concern assumption;
 - E. Determining the information that should be disclosed about the date of authorisation of financial statements for issue, and disclosing adjusting and non-adjusting events after the reporting date.

Scope



3. This Standard applies to federal entities covered by the Manual of Accrual Basis (FGAAS) as detailed in the Introduction thereto.

Authorising the Financial Statements for Issue



4. A federal entity shall distinguish the reporting date from the date on which financial statements are authorised for issue. The reporting date is the last day of the reporting period covered by the financial statements. The date of authorisation for issue is the date on which the financial statements, in their final ready-for-issue form are approved for issue. The "audit opinion" is provided based on those finalised financial statements.
5. In some cases, as the final step in the authorisation process, a federal entity is required to submit its financial statements to another entity and may be required to make changes to audited financial statements. In other cases, the submission of statements to the other entity may be merely a routine process; as the other entity may not have the power to require changes to the statements. Accordingly, the date of authorisation for issue of the financial statements is determined in the context of the particular jurisdiction.



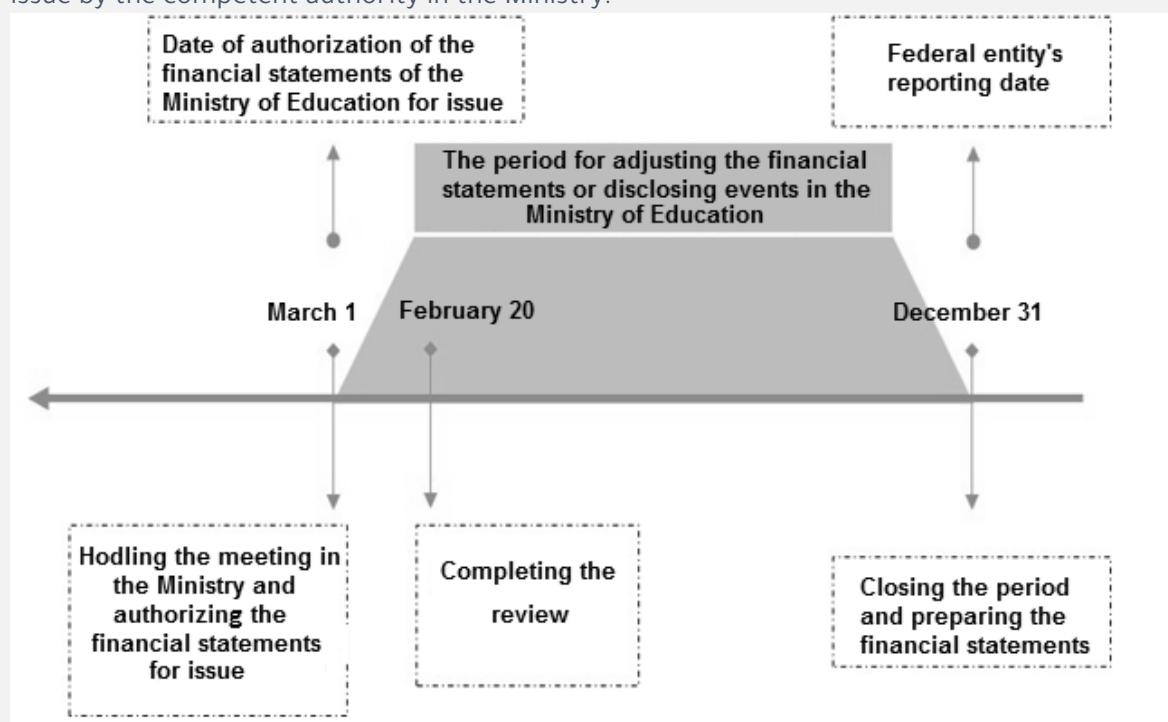
Example 14.1 - Determining the Date of Authorising the financial Statements for Issue and the Period Covered by this Standard

This Appendix explains presentation and disclosure requirements when the budget is prepared on the same basis used in preparing the financial statements (for example, where the general budget is prepared on an accrual basis).

The Ministry of Education prepares its financial statements on December 31; upon which, an external auditor reviews said financial statements and completes the review on February 15. Two weeks later, a meeting is held under the supervision of the Minister of Education to discuss and authorise the financial statements for issue.

Question: What is the period covered by this Standard from the perspective of the Ministry of Education?

Answer: The following diagram shows the period covered by this Standard; as the financial statements of the Ministry of Education are considered approved once they are authorised for issue by the competent authority in the Ministry.



Recognition and Measurement



6. In the period between the reporting date and the date of authorisation of financial statements for issue, officials in a federal entity may announce certain matters related to said entity. Whether or not said matters are considered adjusting events that require recognition or non-adjusting events depends on:
 - A. Whether said matters provide additional information about the conditions existing at the reporting date;
 - B. Sufficient evidence that said matters can be addressed. In most cases, the announcement of such matters does not lead to the recognition of the same as adjusting events; as they are often disclosed as non-adjusting events.

Adjusting Events after the Reporting Date



7. A federal entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.



Example 14.2 - Examples of Adjusting Events after the Reporting Date

- A. The settlement, after the reporting date, of a court case that confirms that the entity had an obligation on the closing date. In this case, the federal entity shall adjust any previously recognised provision related to this case in accordance with (FGAAS) 19, "Provisions, Contingent Liabilities and Contingent Assets" or recognise a new provision.
- B. Impairment, at the reporting date, of certain assets, or where the amount of a recognised impairment loss needs to be adjusted. For example:
 - ✓ The bankruptcy of a debtor which occurs after the reporting date usually confirms that the debtor was credit-impaired at the end of the reporting period; and
 - ✓ The sale of inventories after the reporting date may give evidence about their net realisable value at the reporting date;
- C. The determination, after the reporting date, of the amount of revenue collected during the period (and are deemed receivable in said period) to be shared with another federal entity under a revenue sharing agreement in effect during the reporting period;
- D. The discovery of fraud or errors showing that the financial statements were incorrect.

Example 14.3 - Adjusting Events after the Reporting Date

When preparing its financial statements on December 31, 2014, a federal entity recorded a provision for a work accident involving a group of workers in November 2014. According to the legal department of the federal entity, the entity was likely to be liable for AED 450,000 in workers' compensations.

Therefore, when preparing the final accounts, said provision was recorded as follows:
(Refer to (FGAAS) 19 "Provisions, Contingent Liabilities and Contingent Assets")

Example 14.3 - Adjusting Events after the Reporting Date

Description	Debit	Credit
Expenses - Work Accident Losses	450,000	
Liability - Provision for Work Accident		450,000

On June 30, 2015, the competent court rendered its final decision bringing the total compensation to AED 550,000.

Although its financial statements have not been approved yet, the federal entity should adjust its financial statements for the year ending December 31, 2014 by adding the following adjusting entry:

Description	Debit	Credit
Expenses - Work Accident Losses	100,000	
Liability - Provision for Work Accident		100,000

Non-adjusting Events after the Reporting Date

8. A federal entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date, but shall disclose such events as described in paragraphs 21 and 22.

**Example 14.4 - Non-adjusting Events after the Reporting Date**

On December 31, 2015, the financial statements of a federal entity include a building for a carrying value of AED 1.5 million. On June 15, 2016, prior to approving the financial statements, an earthquake hit the area where said building constructed and caused damages that rendered it no longer inhabitable. Therefore, the building had to be revaluated to determine the amount by which it was impaired on that date.

Accordingly, the federal entity shall not consider this event an adjusting event as there was no indication of impairment at the reporting date and the event in question is not related to conditions which existed on the closing date.

Therefore, the federal entity shall disclose said event and its effect in the financial statements as discussed in paragraph 22.

Dividends or Similar Distributions

9. Where dividends or similar distributions are proposed or declared after the reporting date, a federal entity shall not recognise such distributions as liabilities at the reporting date.
10. Dividends may arise when a federal entity controls a private institution that has external ownership interests and distributes dividends based on equity and ownership percentages. Accordingly, the federal entity shall consolidate said institution's financial statements in the federal entity's consolidated financial statements.
11. A federal entity shall disclose dividends and similar distributions in accordance with (FGAAS) 1 "Presentation of Financial Statements".

Going Concern of a Federal Entity



12. Each federal entity shall individually assess its going concern assumption. The assessment shall be of relevance to an individual entity rather than the Federal Government as a whole. For example, the Federal Government may decide to transfer all the activities of a federal entity to another federal entity; hence, such restructuring does not affect the Federal Government as a whole, but may affect the going concern of the federal entity itself.
13. A federal entity shall not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or competent parties with respect to such decisions determine, after the reporting date, that there is an intention to liquidate the federal entity or to discontinue its operations, or that there is no realistic alternative but to do so.
14. In assessing whether the going concern assumption is still valid, those responsible for the preparation of the financial statements, and/or competent parties with respect to such decisions, need to consider many factors; including:
 - A. Current and expected performance of the federal entity;
 - B. Any announced or potential restructuring of federal entities;
 - C. The likelihood of continued government funding;
 - D. Potential sources of alternative funding, if necessary.
15. As for federal entities that mainly depend on Federal Government funding for operations, the going concerns do not usually appear unless the Federal Government announces its intention to stop funding the concerned federal entity.
16. Some federal entities may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. Deterioration in operating results or financial position, after the reporting date, may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the entity shall reflect the impact of this change in its financial statements. The impact of such a change will depend on the particular circumstances of the federal entity, such as whether operations are to be transferred to another federal entity or liquidated. Appropriate judgment is required when determining whether or not a change in the carrying value of assets and liabilities is required.
17. When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or gives rise to clauses in debt contracts leading to the reclassification of certain debts as current liabilities.
18. (FGAAS) 1 "Presentation of Financial Statements" requires certain disclosures if:
 - A. The financial statements are not prepared on a federal entity's going concern basis. (FGAAS) 1 "Presentation of Financial Statements" requires this fact to be

disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered a “going concern federal entity”;

- B. Those responsible for the preparation of the financial statements are aware of material uncertainties related to events or conditions that may cast significant doubt on the federal entity’s ability to continue as a going concern. (FGAAS) 1 “Presentation of Financial Statements” requires such uncertainties to be disclosed.

Restructuring



19. When a restructuring is announced after the reporting date and meets the definition of a non-adjustable event, a federal entity shall make the appropriate disclosures in accordance with this Standard. Guidance on the recognition of provisions associated with restructuring is found in (FGAAS) 19 “Provisions, Contingent Liabilities and Contingent Assets”. Restructuring involves the elimination of a component / activity of a federal entity, which does not in itself cast doubt on the federal entity’s ability to continue as a going concern. The announcement of a restructuring after the reporting date indicates that a federal entity is no longer a going concern and that the nature and amount of recognised assets and liabilities may change.

Disclosures

Disclosure of the Date of Authorisation of Financial Statements for Issue



20. A federal entity shall disclose the date of authorisation of its financial statements for issue. Users of financial statements need to know when financial statements were prepared for issue, when said statements do not reflect the facts after the date of preparing the financial statements. It is important for users to be aware of the rare circumstances where a particular individual or body has the power to amend financial statements after issuance. Examples of individuals or bodies that may have the power to amend financial statements after issuance include Ministers, the Council of Ministers or any member of the relevant authority of the governing body. Where amendments are made, the amended financial statements shall be a new set of financial statements.

Updating Disclosure of Conditions at the Reporting Date



21. A federal entity may need to update the disclosures in its financial statements to reflect new information received after the reporting date but before the financial statements are authorised for issue, even when the new information does not affect the amounts that the federal entity recognises in its financial statements; such as when evidence becomes available, after the reporting date, about contingent liabilities that existed at the reporting date. In addition to considering whether or not it should now recognise a provision, a federal entity shall update its disclosures about the contingent liability in light of that evidence.

Disclosure of Non-Adjusting Events after the Reporting Date



22. If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, a federal entity shall disclose the following for each material class of non-adjusting events after the reporting date:
- A. The nature of the event;
 - B. An estimate of its financial effect, or a statement that such an estimate cannot be made.

**Example 14.5 - Examples of Non-Adjusting Events after the Reporting Date that Require Disclosure**

- A. A federal entity decides, after reporting date, to provide / distribute substantial additional benefits in the future directly or indirectly to participants in community service programmes that it operates, and those additional benefits have a major impact on the federal entity;
- B. Announcing a plan to discontinue an operation or major program,
- C. Major purchases of assets after the reporting date; classification of assets as held for sale in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations, other disposals of assets, or expropriation of major assets by other federal entities;
- D. The destruction of a major building by fire after the reporting date;
- E. Announcing or commencing the implementation of a major restructuring process (See (FGAAS) 19 "Provisions, Contingent Liabilities and Contingent Assets");
- F. Abnormally large changes, after the reporting date, in asset prices or foreign exchange rates;
- G. Assuming significant or contingent liabilities, such as issuing significant guarantees after the reporting date;
- H. Commencing major litigation arising solely out of events that occurred after the reporting date.

Transitional Provisions

Under (FGAAS) 33 “First-time Adoption of the Accrual Basis”, a federal entity adopting (FGAAS) for the first time may change its accounting policy prior to the expiry of the three-year grace period from the date of adoption of (FGAAS) in preparing financial statements.

Effective Date

The provisions of these Standards shall apply upon adopting the UAE Federal Government Standards for Accrual Accounting.

Technical References

- International Public Sector Accounting Standard 33 - First-time Adoption of the Accrual Basis IPSASs;
- International Public Sector Accounting Standard 3 - Accounting Policies, Changes in Accounting Estimates and Errors;
- International Public Sector Accounting Standard 1 - Presentation of Financial Statements;
- International Public Sector Accounting Standard 2 - Cash Flow Statements;
- International Public Sector Accounting Standard 20 - Related Party Disclosures;
- International Public Sector Accounting Standard 24 - Presentation of Budget Information in Financial Statements;
- International Public Sector Accounting Standard 14 Events after the Reporting Date.



Section - Tangible and Intangible Assets

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Document Control

This document contains Federal Government Accrual Accounting Standards relating to recording tangible and intangible assets of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	November 2020	December 2020	• Update paragraph 6 (scope of Standard 17) in relation to Agricultural Assets • Adding Guidance on the impact of acquisition on depreciation (paragraph 34 of Standard 17 "Property, Plant, and Equipment") • Addition in Paragraph 14 related to identification and classification of Assets in Standard 16 "Investment Properties". • Adding Paragraph 8 related to acquisition in Standard 31 "Intangible Assets". • Adding Paragraphs 29 to 33 related to guidance on recognition and measurement on acquisition in Standard 31 "Intangible Assets". • Adding point (b) in Paragraph 55 of Standard 31 "Intangible Assets". • Adding Paragraph 68 related to guidance on useful life upon a merger in Standard 31 "Intangible Assets". • Adding Paragraph 93 related to guidance on derecognition upon a merger in Standard 31 "Intangible Assets". • Adding Paragraph 36 related to disclosures in Standard 27 "Agriculture". • Adding points "c" and "d" in Paragraph 3 to clarify the scope in Standard 13 "Leases". • Addition in Paragraphs 9,10 and 13 related to identification of a Cash generating Asset in Standard 26 "Impairment of Cash generating Assets". • Adding Paragraphs 80 to 91 related to goodwill in Standard 26 "Impairment of Cash generating Assets". • Addition in Paragraphs 114 and 116 related to disclosures in Standard 26 "Impairment of Cash generating Assets". • Adding Paragraph 10 related to goodwill in identifying non-Cash generating Assets in Standard 21 "Impairment of non-Cash generating Assets".
Third Version	December 2023		• Amending the text of Paragraph 21(e) related to initial measurement in Standard 17 "Property, Plant, and Equipment".

Version	Issued on	Approved on	Comments
			- Amending Paragraph 17 related to subsequent costs by adding a sentence below point (c) in Standard 17 "Property, Plant, and Equipment". - Amending Paragraph 66 related to disclosures by removing point (d) in Standard 17 "Property, Plant, and Equipment". - Adding Paragraph 67 related to disclosures in Standard 17 "Property, Plant, and Equipment".
Fifth Version	August 2025		Removing Standard 13 "Leases" Adding Standard 43 "Leases" and Standard 44 "Non-current Assets Held for Sale and Discontinued Operations" Introducing updates in line with recent amendments to the standards as follow: - The removal of definitions related to Standard 13 "Leases" and addition of definitions related to Standard 43 "Leases" - Updating scope exclusions in Standard 17 "Property, Plant, and Equipment" by removing outdated lease and concession guidance, and adding exclusions related to held-for-sale assets, investment property using the cost model - Amending depreciation end-date in Standard 17 "Property, Plant, and Equipment" under "Subsequent Measurement and Depreciation" in relation to asset held for sale. - Adding exception for inventory transfers in Standard 17 "Property, Plant, and Equipment" under "Derecognition" when assets held for sale in the ordinary course of operations are moved to inventories. - Amending disclosure requirements in Standard 17 "Property, Plant, and Equipment" in relation to assets held for sale under Standard 44 "Non-current Assets Held for Sale and Discontinued Operations". - Removing scope in Standard 16 "Investment Property" related to lessee and lessor lease measurements - Adding recognition of investment property held as a right-of-use asset under Standard 43 "Leases" in Standard 16 "Investment Property". - Removing guidance on initial cost recognition and liability for leased investment property from Standard 16 "Investment Property". - Adding measurement requirement for investment property held as a right-of-use asset under Standard 43 "Leases" in Standard 16 "Investment Property". - Amending measurement guidance after recognition in Standard 16 "Investment Property". - Amending disclosure requirements in Standard 16 "Investment Property"

Version	Issued on	Approved on	Comments
			• Removing lease-related exclusions and adding scope for intangible assets held for sale in Standard 31 "Intangible Assets". • Amending amortisation guidance in Standard 31 "Intangible Assets" to align cessation of amortisation with classification or derecognition of intangible assets held for sale under Standard 44 "Non-current Assets Held for Sale and Discontinued Operations". • Amending disclosure requirements in Standard 31 "Intangible Assets" to include intangible assets classified as held for sale under Standard 44 "Non-current Assets Held for Sale and Discontinued Operations". • Amending the scope of Standard 27 "Agriculture" to exclude right-of-use assets arising from a lease of land related to agricultural activity. • Adding guidance under the "Inability to Measure Fair Value Reliably" in Standard 27 "Agriculture" to presume fair value can be measured reliably once a biological asset is classified as held for sale under Standard 44 "Non-current Assets Held for Sale and Discontinued Operations". • Amending the scope of Standard 26 to exclude non-current assets (or disposal groups) classified as held for sale under Standard 44 "Non-current Assets Held for Sale and Discontinued Operations". • Adding clarification under the "Information from Internal Sources" in Standard 26 "Impairment of Cash-generated Assets" that asset classified as held for sale under Standard 44 "Non-current Assets Held for Sale and Discontinued Operations" are excluded from the scope of impairment assessment. • Amending the scope of Standard 21 "Impairment of Non-cash Generated Assets" to exclude non-current assets (or disposal groups) classified as held for sale under Standard 44 "Non-current Assets Held for Sale and Discontinued Operations". Introducing updates in line with annual updates as follow: • Adding guidance under the "Disclosure of Transfer of the Asset is a Sale" in Standard 43 "Leases".

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to recoding and bases of classification of tangible and intangible assets according to the nature of transactions, in addition to detailing the manner in which all such assets are to be recognized, measured, presented and disclosed in financial statements. This Standard shall apply to any federal entity which, according to this Standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Overview of Tangible and Intangible Assets of the Federal Government

This document includes the accounting standards relating to recognition, measurement and presentation and disclosure requirements of tangible and intangible assets of the Federal Government.

The Standards included in this document:

- A. Introduce key conditions for analysing and determining the nature of transactions and contractual arrangements;
- B. Enable the classification of tangible and intangible assets of the Federal Government according to the nature, rather than the form, of transactions;
- C. Presents the key conditions for capitalising the costs related to acquisition of tangible and intangible assets which federal entities are required to present in the statement of financial position;
- D. Address the bases of measurement of said assets, according to the nature of transactions;
- E. Address subsequent measurement and relevant factors, including depreciation and amortisation methods, useful life assessment and impairment;
- F. Presentation and disclosure requirements relating to said assets.

In addition, this document addresses contractual transactions (leases and service concession arrangements) and all their particulars, including:

- A. A standard for all leases, including applicable requirements when a federal entity is a lessor (recording a finance lease asset or lease expenses) or lessee (recording a right of use asset);
- B. A standard for service concession arrangements, including key elements in identifying such arrangements and transactions arising from the same, such as:
 - ✓ Service concession assets;
 - ✓ Liabilities arising from such arrangements;
 - ✓ Expenses and revenues arising from such arrangements.

Definitions



The following terms are used in this Standard in the following context:

Term	Definition
Amortisation / Depreciation	The systematic allocation of the depreciable / amortisable amount of an asset over its useful life. For intangible assets, the term “Amortisation” is generally used instead of “Depreciation” with both terms having the same meaning.
Biological Asset	A living animal or plant.
Service Concession Asset	An asset used to provide public services in a service concession arrangement that: A. Is provided by the operator which: ✓ Is constructed, developed or acquired from a third party; or ✓ Is an existing asset of the operator. B. Is provided by the federal entity (grantor) which: ✓ Is an existing asset of the federal entity; or ✓ Is the result of an upgrade of an existing asset of the federal entity.
Intangible Asset	An identifiable non-monetary asset without physical substance.
Non-cash Generating Assets	Assets held for other than commercial purposes.
Cash-generating Assets	Assets held to generate a commercial return.
Impairment	A loss in the future economic benefits or service potential of an asset, exceeding the recognition of depreciation (amortisation). Therefore, impairment of an asset reflects a decrease in its future economic benefits or service potential.
Contingent Rent	A portion of the lease payments that is not fixed in amount but is based on other future factors other than the passage of time (such as the percentage of sales, amount of use, price indices, market rates of interest).
Research	An investigation undertaken by a federal entity in order to gain scientific or technical knowledge and understanding.
Biological Transformation	Includes the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes in a biological asset.

Term	Definition
Binding Arrangement	Contracts and other arrangements that confer similar rights and obligations on the parties thereto as if they were in the form of a contract.
Service Concession Arrangements	A binding arrangement between a federal entity and an operator under which: A. The operator uses the service concession asset to provide public services on behalf of the grantor for a specified period of time; B. The operator is compensated for its services over the period of the service concession arrangement.
Development	The application of research findings of gained knowledge of a plan or model to produce new or substantially improved materials, tools, products, processes, systems or services prior to the commencement of production or commercial use.
Costs of Retirement	Incremental costs directly related to the retirement of an asset, excluding finance costs and income tax expense (where applicable).
Costs to Sell	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense (where applicable). Disposal may be carried out by means of sale or distribution that is free of charge or for a nominal charge.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Harvest	The detachment of produce from a biological asset or the cessation of a biological asset's life processes.
Usufruct	An in rem right to use an asset owned by another party (third party) that enables a federal entity to utilise the same; such as the usufruct of land and buildings owned by a third party.
Impairment Loss of a Non-cash Generating Asset	The amount by which the carrying amount of an asset exceeds its recoverable service amount.
Impairment Loss of a Cash-generating Asset	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Active Market	A market in which all the following conditions exist:

Term	Definition
	A. The items traded within the market are homogeneous; B. Buyers and sellers can be found at any time; and C. Prices are available to the public.
Investment Property	The property (land / building or part of a building, or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, other than those held for the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of operations.
Non-cancelable Lease	A lease that is cancelable only: A. Upon the occurrence of some remote contingency; B. With the permission of the lessor; C. If the lessee enters into a new lease for a similar or equivalent asset with the same lessor; or D. Where the lessee pays, for example, an additional amount at inception of the lease and continuation of the lease is not reasonably certain.
Useful Life	The period over which an asset is expected to be used by a federal entity.
Class of property, plant and equipment	The group of assets of a similar nature or function in a federal entity's operations that is shown in a single class for the purpose of disclosure in the financial statements.
Carrying Amount	The cost of an asset after deducting any accumulated depreciation and impairment losses.
Fair value less costs to sell	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the costs of retirement.
Residual Value of the Asset	The amount a federal entity is expected to obtain from disposal / sale of the asset, after deducting the estimated costs of disposal, at the end of its useful life.
Value in use of a non-cash generating asset	The present value of the asset's remaining service potential.

Term	Definition
Value in use of a cash-generating asset	The current value of expected future cash flows from continuous use of an asset and retirement of the same at the end of its useful life.
Grantor	The federal entity that grants an operator the right to use a service concession asset.
Depreciable Amount	The cost of an asset less its value at the end of its useful life (residual value).
Agricultural Produce	The harvested product of biological assets.
Operator	The private institution or third party that uses the service concession asset to provide public services subject to the federal entity's (grantor's) control of the asset.
Owner-occupied Property	Property held by a federal entity, as the owner or lessee as a right-of-use asset, for use in the production or supply of goods, provision of services or for administrative purposes.
Property, Plant and Equipment	Tangible assets held by a federal entity for use in the production or supply of goods or services or for administrative purposes, that are expected to be used over more than one fiscal period.
Land	Land owned by a federal entity.
Budget	Estimates developed by management showing the volume of cash flows expected to be used or expended during a given period and the volume of cash flows expected to be generated during the same period.
Agricultural Activity	The management of the biological transformation and agricultural produce of biological assets for: A. Sale; B. Distribution at no charge or for a nominal charge; or C. Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.
Cash-generating Unit	The smallest group of identifiable assets held primarily for achieving commercial return that produces cash inflows from continuous use that are substantially independent from cash inflows from other assets or asset groups.

Term	Definition
The commencement date of the lease (commencement date)	Is the date on which a lessor makes an underlying asset available for use by a lessee.
A contract	For the purpose of this Standard, is an agreement between two or more parties that creates enforceable rights and obligations.
Economic life	Economic life is either: A. The period over which an asset is expected to be economically usable by one or more users; or B. The number of production or similar units expected to be obtained from an asset by one or more users.
The effective date of the modification	Is the date when both parties agree to a lease modification
Fair value	For the purpose of applying the lessor accounting requirements in this Standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Finance lease	Is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.
Fixed payments	Are payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments.
Gross investment in the lease	Is the sum of: A. The lease payments receivable by a lessor under finance lease; and B. Any unguaranteed residual value accruing to the lessor.
The inception date of the lease	(inception date) is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.
Initial direct costs	Are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.
The interest rate implicit in the lease	Is the rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

Term	Definition
A lease	Is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
Lease incentives	Are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.
Lease modification	Is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).
Lease payments	Are payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following: A. Fixed payments (including in-substance fixed payments), less any lease incentives; B. Variable lease payments that depend on an index or rate; C. The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and D. Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non-lease components of a contract unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component. For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third part unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.
The lease term	Is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both: A. Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

Term	Definition
	B. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
A lessee	Is an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.
The lessee's incremental borrowing rate	Is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
A lessor	Is an entity that provides the right to use an underlying asset for a period of time in exchange for consideration.
Net investment in the lease	Is the gross investment in the lease discounted at the interest rate implicit in the lease.
Operating lease	Is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
Optional lease payments	Are payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.
Period of use	Is the total period of time that an asset is used to fulfill a contract (including any non-consecutive periods of time).
The residual value guarantee	Is a guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.
A right-of-use asset	Is an asset that represents a lessee's right to use an underlying asset for the lease term.
A short-term lease	Is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.
A sublease	Is a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and lessee remains in effect.
Underlying asset	Is an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.
Unearned finance revenue	Is the difference between: A. The gross investment in the lease; and

Term	Definition
	B. The net investment in the lease.
Unguaranteed residual value	Is that portion of the residual value of the underlying asset, the realization of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.
Variable lease payments	Are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.
A cash-generating unit	Is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
A component of an entity	Comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
Costs to sell	Are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense (when applicable). Disposal may occur through sale or distribution without charge or for a nominal fee.
Current asset	A federal entity shall classify an asset as a current asset when: A. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; B. It holds the asset primarily for the purpose of trading; C. It expects to realize the asset within twelve months after the reporting period; or D. The asset is cash or a cash equivalent as defined in Federal Government Accrual Accounting Standard 2 "Cash Flow Statements" unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
A discontinued operation	Is a component of a federal entity that either has been disposed of or is classified as held for sale and: A. Represents a separate major operation or geographical area of operations.

Term	Definition
	B. Is part of a single coordinated plan to dispose of a separate operation or geographical area of operations; or C. Is a controlled entity acquired exclusively with a view to resale.
A disposal group	Is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of Federal Government Accrual Accounting Standard 26 "Impairment of Cash Generating Assets" or if it is an operation within such a cash-generating unit.
A firm purchase commitment	Is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that A. Specifies all significant terms, including the price and timing of the transactions, and B. Includes a disincentive for non-performance that is sufficiently large to make performance highly probable.
Highly probable	Means significantly more likely than probable.
A non-current asset	Is an asset that does not meet the definition of a current asset.
Probable	Means more likely than not.
Recoverable amount	The higher of a non-cash generating asset's: A. Fair value less costs to sell; or B. Its value in use (the value derived from use of the asset).



Standard 17 - Property, Plant and Equipment

Standard 17 - Property, Plant and Equipment

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 17 (IPSAS 17) which provides for recognition, measurement bases, presentation and disclosure of property, plant and equipment. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to understand and explain the accounting treatment of property, plant and equipment, prescribe the requirements relating to the recognition and measurement of these assets and explain the requirements of subsequent measurement, presentation and disclosures relating to property, plant and equipment. It also discusses the understanding and explanation of the accounting treatment of infrastructure assets and assets associated with concession arrangements.
2. This Standard primarily addresses the following topics:
 - A. Prescribing asset recognition criteria;
 - B. Determination of the costs of initial recognition of the assets;
 - C. Determination of the depreciation charges and impairment losses to be recognized in relation to them;
 - D. Cases of derecognition and the bases of their treatment;
 - E. Bases for presenting assets in financial statements and the related disclosures.

Scope



3. This Standard applies to federal entities covered by the Manual of Federal Government Accrual Accounting Standards (FGAAS) as detailed in the Introduction thereto
4. A federal entity that prepares and presents its financial statements in accordance with the accrual accounting principle adopted by the Federal Government shall apply this Standard when accounting for:



Property, Plant and Equipment	Infrastructure Assets	Assets Associated with Concession Arrangements
Tangible assets used in the production or supply of services or goods or for administrative purposes and are expected to be used over more than one accounting period. These assets include, but are not limited to: ✓ Land ✓ Buildings ✓ Machinery ✓ Furniture ✓ Cars or vehicles	Assets which meet some or all of the following characteristics: A. They are part of a system or network; B. They are specialised in nature and do not have alternative uses; C. They are immovable; D. They may be subject to constraints on disposal. For example: ✓ Road networks	Assets created upon granting a service provider the right to construct and operate public service projects on behalf of the Federal Government in accordance with terms stipulated in a binding agreement between the service provider (Operator) and Federal Government (Grantor); when the federal entity recognises assets based on control. These assets include, but are not limited to: ✓ A civil airport

Property, Plant and Equipment	Infrastructure Assets	Assets Associated with Concession Arrangements
	✓ Sewer systems ✓ Water supply systems ✓ Communication networks	✓ The e-Dirham Programme



5. In respect of **heritage assets**, such as natural reserves, conservation areas, monuments, archaeological sites, historical buildings and works of art, they are characterised by their historical, environmental or cultural significance. For more details, please refer to paragraphs 51 - 55 of this Standard.



6. This Standard does not apply to:
- A. Biological assets associated with agricultural activity (FGAAS 27 "Agriculture"); This Standard applies to bearer plants but does not apply to the produce on bearer plants;
 - B. Assets listed under investment property discussed in FGAAS 16 "Investment Property; and
 - C. Property, plant, and equipment classified as held for sale in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations.
7. A federal entity using the cost model for investment property in accordance with FGAAS 16, Investment Property shall use the cost model in this Standard for owned investment property.

Recognition



8. A federal entity shall recognise the cost of an item of property, plant and equipment as an asset if the following criteria are met:
- A. If it is probable that future economic benefits or service potential associated with the asset will flow to the federal entity; and
 - B. If the cost or fair value of the asset can be reliably measured;
 - C. If the federal entity can demonstrate its control of the asset.



9. Property, plant and equipment acquired through exchange and non-exchange transactions may be recognised as follows:
- A. **Exchange transactions:** Assets shall be purchased / constructed when a federal entity pays / spends a cash amount that is equal to the value of the asset. For more details, please refer to FGAAS 19 "Revenue from Exchange Transactions".
 - B. **Non-exchange transactions:** Upon acquiring assets at no charge or for nominal charge. When transferring an asset to a federal entity under an agreement,

clauses shall be stipulated to prescribe the manner in which the asset is to be used or to control disposal of the same. For more details, please refer to FGAAS 23 “Revenue from Non-exchange Transactions.

Example 17.1 - Recognition of Property, Plant and Equipment Acquired through Exchange Transactions

At the beginning of the current year, the Ministry of Health purchased three buses from a third party for the value of AED 600,000.

Accordingly, the Ministry of Health shall recognise the buses as part of property, plant and equipment; since all conditions are met:

- ✓ The flow of economic benefits and service potential.
- ✓ Cost can be reliably measured.
- ✓ The Ministry of Health gained control of the buses by acquiring them.

Therefore, the Ministry of Health shall make the following entries:

Description	Debit	Credit
Fixed Asset - Buses	600,000	
Cash - Bank Account		600,000

**Example 17.2 - Recognition of Property, Plant and Equipment Acquired through Non-exchange Transactions**

The Ministry of Health transferred a bus to the Ministry of infrastructure under an agreement that provides for transferring the ownership of said bus to the Ministry of infrastructure to use the same for the remainder of its useful life. The fair value of the transferred bus is AED 250,000. Accordingly, the received asset will be recognised at fair value, together with the corresponding liability (deferred revenue) arising from the above-mentioned agreement. Therefore, the Ministry of infrastructure shall record said transaction as follows:

Description	Debit	Credit
Fixed Asset - Bus	250,000	
Liability - Deferred Revenue		250,000

While the asset is in use, upon satisfying implicit conditions (using the asset during the remaining period which is expected to be 5 years), a depreciation for the period was recognised for the amount of AED 50,000. Accordingly, depreciation shall be recognised together with revenue from a non-exchange transaction to reduce the previously recognised liability (deferred revenue).

Therefore, the Ministry of infrastructure shall record said transaction as follows:

Description	Debit	Credit
Depreciation Expense - Bus	50,000	
Accumulated Depreciation - Bus		50,000

Description	Debit	Credit
Liability - Deferred Revenue	50,000	
Revenue from a Non-exchange Transaction		50,000



10. A federal entity shall recognise the following as items of property, plant and equipment:
- A. Major spare parts and stand-by equipment; if the federal entity expects to use the same over more than one period.
 - B. Major spare parts and equipment used to repair a particular asset.
 - C. Dismantlement and installation cost, such as the cost of ceasing operations and improvements under operating leases. For example, where the lessee; under an operating lease; is allowed to make improvements and adjustments to property to meet lessee's needs (such as constructing an additional internal wall) in the presence of a clause requiring the lessee to restore the property to its original state at the end of the lease term, the lessee shall recognise a provision for said liability (dismantling the wall); hence, the cost incurred by the lessee is not merely the cost of constructing the wall, but also the cost of restoring the property to its original state at the end of the lease term. Therefore, the federal entity shall capitalise the cost of constructing and dismantling the wall and recognise the same in the statement of financial performance over the useful life of the asset (generally, the expected lease term) as part of the depreciation cost.
 - D. Equipment intended for safety or environment protection purposes. Although such equipment do not directly increase future economic benefits or service potential of an asset of property, plant and equipment, they may be necessary to achieve future economic benefits or service potential of other assets. For example, fire safety regulations may require a hospital to install new fire extinguishing equipment that are recognised as a related asset within its recoverable amount in order to operate the hospital in accordance with the regulations. Said assets are recognised at their carrying amount and the carrying amount of related assets. The carrying amount is annually reviewed for impairment in accordance with FGAAS 21, "Impairment of Non-Cash-Generating Assets."
11. This Standard does not prescribe the asset unit that constitutes an asset of property, plant and equipment. Therefore, it may be appropriate to individually aggregate assets, such as molds and tools, and apply this Standard to the aggregate value.
12. Under the recognition principle prescribed in paragraph 8, a federal entity shall recognise all property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an asset of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service the same. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets.



Example 17.3 - Recognition of an Asset Including Associated Costs

At the beginning of the current year, the Ministry of Education purchased several computers from a third party for the value of AED 100,000; including an unrecoverable custom duty of AED 20,000. In addition, the Ministry incurred AED 6,000 as the cost of moving the devices to the Ministry and AED 4,000 to install them.

Therefore, the Ministry of Education shall make the following entries:

Description	Debit	Credit
Fixed Asset - Computers *	110,000	
Cash - Bank Account		110,000

*Calculated as follows: 100,000 + 6,000 + 4,000

13. Specialist military equipment will normally meet the definition of property, plant and equipment and should be recognised as an asset in accordance with this Standard.

Disaggregation



14. Where an asset of property, plant and equipment comprises two or more significant parts with substantially different useful lives, a federal entity shall treat each part separately for depreciation purposes and shall depreciate each individual part over its useful life. When a significant part of an asset is replaced or restored, the old part shall be eliminated in order to avoid duplicity in accounting for and capitalisation of the new item, if its cost is recoverable.
15. The costs of replacement of an item are recognised as an asset if they meet recognition criteria. Where said criteria are met and costs are capitalised, the carrying amount of the replaced part(s); being the accumulated cost less depreciation; shall be eliminated. This shall apply if the replaced item or part is depreciated separately. If the cost and depreciation amount of the replaced item or part cannot be determined, it shall be acceptable to use the cost of emplacement of the new part as an indication of what the cost of the replaced part was when the same was acquired or constructed.

Example 17.4 - Recognition of Item Replacement Costs as an Asset

A federal entity purchased a bus for AED 250,000 with an estimated useful life of 5 years. At the end of the third year, the federal entity replaced the engine of the bus for the value of AED 60,000. However, upon initial recognition of the bus, the federal entity could not measure and disaggregate the “engine” component. On the date when the engine was replaced, the federal entity’s financial statements showed the following:

- ✓ Cost of the bus: AED 250,000.
- ✓ Accumulated depreciation: AED 150,000.
- ✓ Carrying amount: AED 100,000.

Accordingly, the new engine will be capitalised at cost, but the federal entity need to eliminate the value of the replaced part. Since the federal entity was unable to disaggregate the bus upon initial recognition, it will adopt the cost of the new engine as an indicative amount to eliminate the value of the old engine. As for accumulated depreciation, it will be calculated based on the proportion between the cost of the bus and the value of the new engine. Accordingly, the amount of eliminated accumulated depreciation will be: $150,000 \times (60,000 / 250,000) = \text{AED } 36,000$.

Therefore, the federal entity shall make the following entries:

Recording the capitalisation of the new engine

Description	Debit	Credit
Fixed Asset - Bus (New Engine)	60,000	
Cash - Bank Account		60,000

Recording the elimination of the old engine

Description	Debit	Credit
Accumulated Depreciation - Bus	36,000	
Damage Loss	24,000	
Fixed Asset - Bus (<i>Old Engine</i>)		60,000

Upon recording said transactions, the asset register will show the following:

- ✓ Cost of the bus: AED 250,000.
- ✓ Accumulated depreciation: AED 114,000.
- ✓ Carrying amount: AED 136,000.

Subsequent Cost

16. Under the recognition principle in paragraph 8, a federal entity shall not recognise in the carrying amount of an asset of property, plant and equipment the costs of the day-to-day or routine servicing of the asset. Rather, said amounts are recognised in the statement of financial performance for the period during which the servicing is carried out. Costs of day-to-day or routine servicing primarily include the costs of labor and consumables, and may include the cost of small parts.



17. Recognition of costs in the carrying amount of an asset of property, plant and equipment shall cease when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an asset shall not be included in the carrying amount of that asset. Following are examples of such costs:

- A. Costs incurred while an item capable of operating in the manner intended by management is being prepared to be brought into use or is operated at less than full capacity;
- B. Initial operating losses, such as those incurred while demand for the asset's output builds up;
- C. Costs of relocating or reorganising part or all of the federal entity's operations.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognizes the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable standards. The entity measures the cost of those items applying the measurement requirements of FGAAS 12.

18. Parts of some assets of property, plant and equipment may require replacement at regular intervals. For example, furniture in federal entities' buildings may require replacement several times during the life of the relevant building. Assets of property, plant and equipment may also be purchased to make replacements less frequent such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 8, a federal entity shall recognise in the carrying amount of an asset of property, plant and equipment the cost of replacing any part of such an asset when that cost is incurred if the recognition criteria are met; provided that carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions prescribed in this Standard (see paragraphs 57 - 63).

19. A condition of continuing to operate an asset of property, plant and equipment may be performing regular major inspections for faults regardless of whether parts of the asset are replaced. When each major inspection is performed, it shall be recognised as discussed in paragraph 8.



Example 17.5 - Recognition of Subsequent Cost

In March 2012, a federal entity purchased a machine that requires inspection every 3 years. The cost of said machine was AED 500,000 and its useful life was estimated to be 9 years.

In March 2015, the entity performed the first inspection 3 years after the date on which the machine was purchased, and the cost of said inspection was AED 60,000.

Accordingly, when preparing the final accounts on December 31, 2015, the carrying amount of the machine is tracked as follows:

Description	Machine Costs	Inspection Costs	Total
Cost	500,000	60,000	560,000
Accumulated Depreciation	*(166,667)	0	(166,667)
Depreciation for the Period	** (41,667)	*** (15,000)	(56,667)
Carrying Amount	291,666	45,000	336,666

Note: The inspection amount (carrying amount) is presented in the value of the related asset. However, depreciation is tracked separately in the fixed assets register because in section has a different useful life.

$$\left(\frac{500,000}{9}\right) \times 3 = 166,667^*$$

$$\left(\frac{500,000}{9}\right) \times \left(\frac{9}{12}\right) = 41,667^{**}$$

$$\left(\frac{60,000}{3}\right) \times \left(\frac{9}{12}\right) = 15,000^{***}$$

Measurement at Initial Recognition



20. Assets shall be measured according to the nature of the transaction as follows:

Property, Plant and Equipment Acquired through Exchange Transactions	Property, Plant and Equipment Acquired through Non-exchange Transactions
Property, plant and equipment acquired through exchange transactions shall be measured at cost basis, comprising: A. The purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; B. Any other direct costs incurred in making the asset ready for use as intended; C. The initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located to its original state.	Property, plant and equipment acquired through non-exchange transactions shall be measured at fair value which may include any other direct costs incurred in making an asset ready for use as intended.

21. Examples of direct costs of an asset include:

- A. Cost of employee benefits (as defined in FGAAS 39 "Employee Benefits") arising directly from the construction or acquisition of an asset of property, plant and equipment;
- B. Cost of site preparation in the construction of the asset;
- C. Initial delivery costs;
- D. Assembly and installation costs;
- E. Costs of testing whether the asset is functioning properly, (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and
- F. Professional fees

22. Examples of costs that are not part of the value of property, plant and equipment include:

- A. Costs of preparation for opening new facilities;
- B. Costs of introducing a new product or service (including costs of advertising and promotional activities);
- C. Costs of conducting business in a new location or with a new group of customers (including costs of staff training);
- D. Administration and other general overhead costs.

Measurement of Cost



23. The cost of an asset of property, plant and equipment shall be the cash amount paid for an asset acquired from exchange transactions or fair value of an asset acquired from non-exchange transactions. If payment is deferred beyond normal credit terms (for more than 12 months), the difference between the cash price equivalent and the total payment shall be recognised as interest over the credit period unless this interest is recognised in the carrying amount of the asset in accordance with FGAAS 25 "Borrowing Costs".



Example 17.6 - Measurement of Cost through the Current Value of Future Cash Flows

At the beginning of the current year, the Ministry of Health purchased special equipment from a third party for the value of AED 2,000,000 on the condition that payment is to be deferred for two years with an annual discount rate of 10%.

Accordingly, the Ministry of Health shall make the following entry:

Description	Debit	Credit
Fixed Asset - Special Equipment *	1,652,893	
Payables		1,652,893

*Calculated as follows: $\frac{2,000,000}{(1.1)^2}$

Self-constructed Assets



24. The cost of an internally-constructed asset shall be determined using the same principles as for assets. A federal entity makes similar assets for sale in the normal course of operations, the cost of the asset is estimated the same as the cost of producing asset intended for sale; with the exclusion of any internal profits when determining said cost. FGAAS 5 "Borrowing Costs" establishes the conditions to be satisfied for the recognition of interest as a component of the cost of property, plant and equipment.
25. A federal entity shall not capitalise general and administrative expenses and startup costs. The only exception to this rule may be internally-constructed assets made for sale by the entity. This standard states that the cost of said assets shall include conversion costs and costs of converting regular provisions from fixed and variable overheads. Fixed industrial overheads are production overheads which include depreciation, maintenance of property; plant and equipment and any administrative overheads. Costs that may not be included in self-constructed assets include, but are not limited to:
- A. Wasted material;
 - B. Costs related to design or manufacturing errors;
 - C. Unemployed resources;
 - D. Production delays.
26. When constructing or developing an asset of property, plant and equipment, a federal entity may sometimes use other assets to contribute to such construction or development. When processes are not necessary to bring an asset to a condition in which it can operate in the manner intended by management, revenues and expenses related to said processes shall be immediately recognised in the statement of financial performance and shall be included in their corresponding classifications of revenue and expense.



Example 17.7 - Recognition of Self-constructed Assets

In January 2014, the Ministry of infrastructure prepared a construction plan for a building for Ministry's administrative staff. Accordingly, costs will be allocated as direct, indirect, fixed and variable to reflect the real value of the asset. On December 31, 2014; the date of preparation of final accounts; the costs of constructions in progress were as follows:

- ✓ Used building materials: AED 6,000,000
- ✓ Direct labor costs: AED 1,000,000
- ✓ Architects costs: AED 480,000 *
- ✓ Depreciation: AED 320,000 **
- ✓ Other costs (power, water, safety and environmental costs): AED 200,000

Accordingly, the balance of constructions in progress, on the date of preparation of final accounts, was AED 8,000,000

In March 2015, upon completion of the project, the total value of constructions in progress was AED 11,000,000. Upon hand-over of the building, the Ministry of infrastructure transferred the balance of constructions in progress to property, plant and equipment - buildings.

Therefore, the Ministry of infrastructure shall make the following entry:

Description	Debit	Credit
Fixed Asset - Buildings	11,000,000	
Constructions in Progress		11,000,000

*Two architects were assigned to supervise the construction project for an annual salary of AED 600,000; dedicating 40% of each architect's time for this project (2 x 600,000 x 0.4)

**This depreciation relates to assets (machines / equipment) used in construction works of this project.

Asset Exchange



27. One or more assets of property, plant and equipment may be acquired in exchange for a non-monetary asset(s) or a combination of monetary and non-monetary assets. The cost of such an asset shall be measured at fair value; unless:
- A. The exchange transaction lacks commercial substance;
 - B. Neither the fair value of the assets received nor that of the assets given up is reliably measurable.

The acquired asset shall be measured in this way even if the federal entity cannot immediately derecognise the assets given up in return. If the acquired asset is not measured at fair value, its cost shall be measured at the carrying amount of the assets given up.



28. A federal entity shall determine whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance in the following cases:

- A. If the configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred;
- B. If the federal entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; or
- C. If difference in paragraphs (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the federal entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without the federal entity having to perform detailed calculations.

29. The fair value of an asset with no similar transactions in the market shall be reliably measurable if:

- A. Reasonable estimates of fair value are not significantly variable for said asset; or
- B. The probabilities of estimates can be reasonably assessed when calculating fair value.

If a federal entity is able to reliably determine the fair value of either the asset received or the asset given up, then the fair value of the asset given up may be used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Subsequent Measurement and Depreciation

Cost Model

30. After recognising an asset as part of property, plant and equipment, said asset shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
31. The class of property, plant and equipment is a group of assets with similar nature or function in a federal entity's operations. Following are examples of separate classes:
- A. Land;
 - B. Operational buildings;
 - C. Roads;
 - D. Machinery;
 - E. Electricity transmission networks;
 - F. Specialist military equipment;
 - G. Vehicles;
 - H. Furniture and fixtures;
 - I. Office equipment.

Depreciation



32. Each asset, or part of an asset, of property, plant and equipment; with a cost that is significant in relation to the total cost of said asset; shall be depreciated separately as prescribed in paragraph 14.
33. As prescribed in paragraph 14, a federal entity shall allocate the amount initially recognised in respect of an asset to its significant parts and shall depreciate each such part separately. For example, in most cases, the pavements, curbs and channels within streets are expected to be depreciated separately from footpaths, bridges and lighting within a road system. If an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.
34. When a federal entity depreciates parts of an asset separately, other remaining parts of said assets are expected to be depreciated in a fair manner in line with the expected life of the remaining parts as a whole.
35. The depreciation charge for each period is usually recognised in the financial performance statement. However, sometimes, the future economic benefits or service potential embodied in an asset is used in producing other assets. In this case, the depreciation charge shall constitute part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of inventories (see FGAAS 12 “Inventory”). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with FGAAS 31 “Intangible Assets”.



Example 17.8 - Recognition of Depreciation Charge as part of the Cost of Another Asset

In January 2015, the Ministry of infrastructure prepared a construction plan for a building for Ministry's administrative staff. Accordingly, costs will be allocated as direct, indirect, fixed and variable to reflect the real value of the asset. On December 31, 2015; the date of preparation of final accounts; the costs of constructions in progress were as follows:

- ✓ Used building materials: AED 6,000,000
- ✓ Direct labor costs: AED 1,000,000
- ✓ Architects costs: AED 480,000
- ✓ **Depreciation: AED 320,000 ***
- ✓ Other costs (power, water, safety and environmental costs): AED 200,000

Accordingly, the Ministry of infrastructure shall capitalise the depreciation charge associated with the assets used in the project as follows:

Description	Debit	Credit
Constructions in Progress	320,000	
Accumulated Depreciation		320,000

*This depreciation relates to assets (machines/ equipment/ trucks) used in construction works of this project.

Depreciable Amount and Depreciation Period

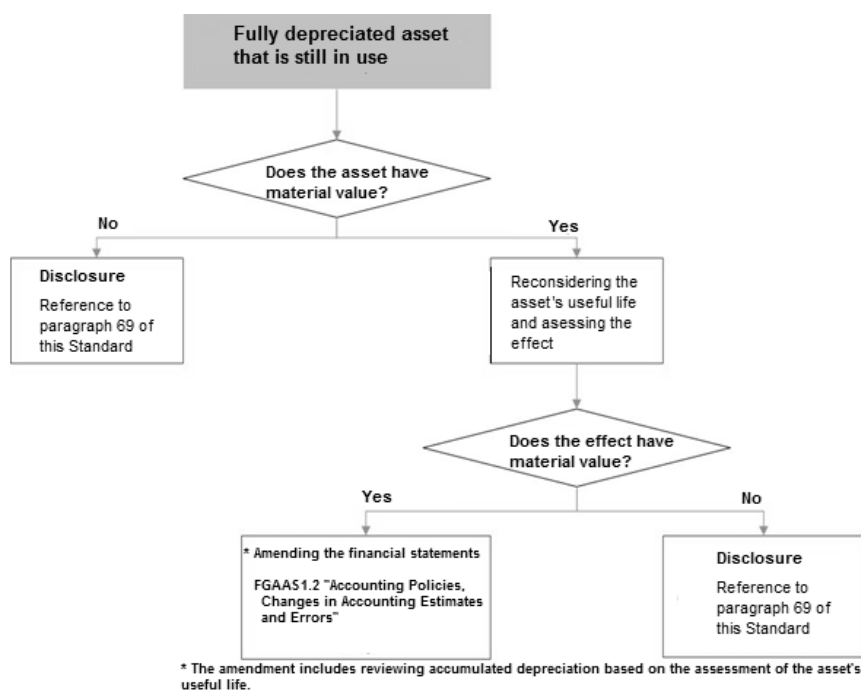


36. The depreciable amount of an asset shall be allocated on a straight-line basis over its useful life.

37. The useful life of an asset and its residual value shall be reviewed at least at the annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with FGAAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors."



38. A federal entity's financial statements may include property, plant and equipment that are fully depreciated and still in use; in which case, the useful life of the asset may need to be reconsidered, which may result in making the necessary adjustments in accordance with FGAAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors." The following diagram shows how fully depreciated assets that are still in use should be tracked:



39. Depreciation shall be recognised as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the obsolescence of an asset, its useful life should be reassessed and adjusted accordingly.
40. The depreciable amount of an asset is determined after deducting its residual value at the end of its useful life. In practice, the residual value of an asset is often immaterial in the calculation of the depreciable amount.
41. The residual value of an asset may increase to an amount equal to or greater than its carrying amount. If it does, the asset's depreciation charge shall be zero unless its residual value subsequently decreases to an amount below its carrying amount.
42. Depreciation of an asset shall begin when it becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FGAAS 44 and the date that the asset is eliminated. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal; unless it is fully depreciated.

Determination of an Asset's Useful Life



43. The future economic benefits or service potential embodied in property, plant and equipment are consumed by a federal entity primarily through the use of assets. However, other factors such as obsolescence and wear and tear while an asset remains idle often result in the reduction of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors shall be considered in determining the useful life of an asset:

- A. Expected usage of the asset. Usage is assessed by reference to the asset's expected usage period;
- B. Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used, the repair and maintenance programme and the care and maintenance of the asset while idle.
- C. Legal or similar constraints on the use of the asset, such as the expiry dates of related leases.



44. The useful life of an asset is defined in terms of the asset's expected benefit to the federal entity. The asset management policy of a federal entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. Furthermore, the estimation of the useful life of the asset is a matter of judgment based on the experience of the federal entity with similar assets.
45. Land (as applicable) and buildings are separable assets and are accounted for separately, even when they are purchased together. With some exceptions, such as sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
46. If the cost of land (as applicable) includes the cost of site dismantlement, removal and restoration, that portion of the land asset shall be depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life; in which case, it shall be depreciated in a manner that reflects the benefits or service potential to be derived from it.

Depreciation Method



47. The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the federal entity.
48. The depreciation calculation method used to allocate the depreciable amount of an asset on a systematic basis over its useful life shall be the straight-line method which results in a constant charge over the asset's useful life if its residual value remains unchanged.

Impairment



49. To determine whether an asset of property, plant and equipment is impaired, a federal entity shall apply FGAAS 26, "Impairment of Cash-Generating Assets" or FGAAS 21 "Impairment of Non-Cash-Generating Assets" to determine whether there was impairment of any property, plant and equipment assets. FGAAS explains how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognises, or derecognises an impairment loss.

Compensation for Impairment

50. The amount of compensation provided by insurance networks to a federal entity for assets that are impaired or destroyed / lost, shall be included in the financial performance statement when the compensation becomes receivable.

**Example 17.9 - Compensation for Impairment**

On September 30, 2015, a fire damaged an asset of a federal entity's machines the carrying amount of which was AED 300,000 (AED 400,000 in costs less AED 100,000 in accumulated depreciation) and the federal entity claimed AED 500,000 in machine replacement costs from the insurance company (third party). On October 10, 2015, after investigating the cause of the fire (electric fault), the insurance company notified the federal entity of complete settlement of its claims.

On October 30, 2015, the insurance company paid the federal entity AED 500,000; and on November 15, 2015, the federal entity used this amount (AED 500,000) to purchase a replacement machine which was installed and prepared for immediate use.

Accordingly, the federal entity shall make the following entries:

On September 30, 2015

Description	Debit	Credit
Accumulated Depreciation	100,000	
Loss from Damage	300,000	
Fixed Asset - Old Machine		400,000

On October 10, 2015

Description	Debit	Credit
Receivables - Insurance Company	500,000	
Other Profits - Insurance Compensation		500,000

On October 30, 2015

Description	Debit	Credit
Cash - Bank Account	500,000	
Receivables - Insurance Company		500,000

On November 15, 2015

Description	Debit	Credit
Fixed Asset - New Machine	500,000	
Cash - Bank Account		500,000

Heritage Assets



51. This Standard does not require a federal entity to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If a federal entity does recognise heritage assets, it must apply the disclosure requirements prescribed in this Standard; provided that the same measurement principles prescribed in this Standard are, whenever possible, applied where such assets are recognised;



52. Some assets are described as “heritage assets” because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- A. Their cultural, environmental, educational and historical value is unlikely to be fully reflected in their financial value based purely on a market price;
- B. Legal and/or legislative obligations may impose prohibitions or severe restrictions on disposal of said assets by sale;
- C. They are often irreplaceable and their value may increase over time even if their physical condition deteriorates;
- D. It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

53. Federal entities may have large groups of heritage assets that have been acquired over the years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows. Furthermore, there may be legal or social obstacles to using them for such purposes.

54. Some heritage assets may have future economic benefits or service potential other than their heritage value; such as a historic building used as an office; in which case, they may be recognised and measured on the same basis as other assets of property, plant and equipment. For other heritage assets, their future economic benefits or service potential are limited to their heritage characteristics, such as monuments and ruins. Future economic benefits or alternative service potential can affect the choice of measurement base.



55. The disclosure requirements prescribed in paragraphs 64 and 65 require federal entities to disclose recognised assets. Therefore, federal entities that recognise heritage assets are required to disclose certain matters in respect to those assets such as:

- A. The measurement basis used;
- B. The depreciation method used, if any;
- C. The gross carrying amount;
- D. The accumulated depreciation at the end of the period, if any;

- E. A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Computer Programmes Treated as an Integral Part of an Asset of Property, Plant and Equipment

56. A computer programme may be classified under property, plant and equipment if it is an integral part of the operation of any asset. Determination of whether an asset that comprises both tangible and intangible components should be treated as part of property, plant and equipment requires personal judgment to assess which components are most significant. For example, when the programmes within a computer operating system are not an integral part of the computer itself, such as accounting programmes, they shall be treated as intangible assets. Following are indicators that provide a basis for assuming an asset to be an integral part of, and classifying it as, an asset of property, plant and equipment as discussed in this Section:

- A. The asset cannot be utilised without the computer programme;
- B. The computer programme is custom-made for the needs of a particular asset;
- C. The computer programme cannot be used for any purpose other than the relevant asset.

Derecognition



57. The carrying amount of an asset of property, plant and equipment shall be derecognised:

- A. When it is sold or disposed of;
- B. When no future economic benefits or service potential are expected from its use or disposal.



58. The gain or loss arising from the derecognition of an asset of property, plant and equipment shall be included in the statement of financial performance when the asset is derecognised (unless FGAAS 43, "Leases" requires otherwise with respect to a sale and leaseback).

59. A federal entity that, in the normal course of business, sells assets of property, plant and equipment held for lease to others shall transfer said assets to inventory at their carrying amount when the same are no longer leased and are held for sale. Proceeds from the sale of said assets shall be recognised as revenue in accordance with FGAAS 9 "Revenue from Exchange Transactions". FGAAS 44 does not apply when assets that are held for sale in the ordinary course of operations are transferred to inventories.

60. The disposal of an item of property, plant and equipment may occur in a variety of ways (for example, by sale, by entering into a finance lease or by donation). When determining the date of disposal of an asset, a federal entity shall apply the criteria prescribed in FGAAS 9 "Revenue from Exchange Transactions" for recognising revenue from the sale of goods. FGAAS 43 "Leases" shall apply to disposal by sale and leaseback.

61. If, under the recognition principle in paragraph 8, a federal entity recognises the carrying amount of an asset of property, plant and equipment as the cost of replacement of any part of the asset, then it shall derecognise the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was purchased or constructed.
62. Gain or loss arising from the derecognition of an asset of property, plant and equipment shall be determined as the difference between net sale proceeds, if any, and the carrying amount of the asset.
63. The consideration receivable on sale of an asset of property, plant and equipment is recognised initially at its fair value. If payment for the asset is deferred, the consideration receivable is recognised initially at the current cash value. The difference between the paid amount of the consideration and the current cash value is recognised as interest revenue in accordance with FGAAS 9 "Revenue from Exchange Transactions" reflecting the effective yield on the receivable.



Example 17.10 - Derecognition through Sale

At the beginning of the current year, the Ministry of infrastructure sold a machine the carrying amount of which was AED 200,000 (AED 300,000 in costs less AED 100,000 in accumulated depreciation) to a third party for AED 350,000. Once the machine is delivered and risks, future benefits and ownership of the machine are transferred to the buyer, the Ministry of infrastructure shall make the following entries:

Description	Debit	Credit
Cash - Bank Account	350,000	
Accumulated Depreciation	100,000	
Fixed Asset - Machine		300,000
Profit from sale of Assets of Property, Plant and Equipment		150,000



Example 17.11 - Derecognition through Disposal

At the beginning of the current year, the Ministry of infrastructure disposed of a machine the carrying amount of which was AED 20,000 due to the fact that it was no longer in use and most of its parts were out of order (AED 300,000 in costs less AED 280,000 in accumulated depreciation). Accordingly, the Ministry of infrastructure shall make the following entries:

Description	Debit	Credit
Accumulated Depreciation	280,000	

Example 17.11 - Derecognition through Disposal

Loss from Disposal	20,000	
Fixed Asset - Machine		300,000

Disclosures

64. A federal entity shall disclose the following in its financial statements:

- A. The measurement bases used in determining the gross carrying amount. If more than one basis is used, the gross carrying amount shall be disclosed under the basis in each classification;
- B. The depreciation method - straight line;
- C. The useful life or depreciation rates used;
- D. The gross carrying amount and the accumulated depreciation aggregated with accumulated impairment losses at the beginning and end of the period;
- E. A reconciliation of the carrying amount at the beginning and end of the period showing:
 - ✓ Additions;
 - ✓ Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FGAAS 44 and other disposals;
 - ✓ Acquisitions through public sector combinations;
 - ✓ Depreciation;
 - ✓ Impairment losses recognised or reversed in the financial performance statement during the period under FGAAS 26 "Impairment of Cash-Generating Assets" or FGAAS 21 "Impairment of Non-Cash Generating Assets";
 - ✓ The net exchange differences arising from the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign currency into the presentation currency of the reporting federal entity;
 - ✓ Other changes.

65. The financial statements shall also disclose the following for each class of property, plant and equipment disclosed in the financial statements:

- A. Any restrictions on title of property, plant and equipment pledged as securities for liabilities;
- B. The amount of expenses capitalised in the property, plant and equipment in the course of their construction;

- C. The amount of contractual commitments for the acquisition of property, plant and equipment;
66. If not presented separately in the statement of financial performance, the financial statements shall also disclose:
- A. The amount of compensation from the third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and
 - B. The amounts of proceeds and cost included in surplus or deficit that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.
67. The estimation of the useful life of assets requires judgment. Therefore, disclosure of the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the accounting and financial policies selected by management and enables comparisons to be made. For similar reasons, it is necessary to disclose:
- A. Depreciation, whether expenditure is recognised in the statement of financial performance or as a part of the cost during a fiscal period;
 - B. Accumulated depreciation at the end of the period.
68. A federal entity shall disclose the nature and effect of a change in an accounting estimate that has a significant effect in the fiscal period or is expected to have a significant effect in subsequent periods in accordance with FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors". Such disclosure may arise from changes in estimates related to property, plant and equipment through changes in assessing:
- A. Residual value at the end of useful life;
 - B. Estimated costs of dismantling and removing the assets of property, plant and equipment and restoring the site;
 - C. Useful lives.
69. The following information meets the needs of users of financial statements:
- A. The carrying amount of temporarily idle property, plant and equipment;
 - B. The gross carrying amount of any property, plant and equipment that are fully depreciated but are still in use;
 - C. The carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with FGAAS 44; and
 - D. The fair value of Property, plant and equipment; if materially different from the carrying amount (impaired assets).



Standard 16 - Investment Property

Standard 16 - Investment Property

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of the International Public Sector Accounting Standard 16 (IPSAS 16) which provides for recognition, measurement bases, presentation and disclosure of investment property. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements, so that users of financial statements can verify the information relating to a federal entity's investment property.
2. This Standard primarily addresses the following topics:
 - A. Identifying and classifying investment property;
 - B. Prescribing investment property recognition requirements;
 - C. Determining the costs of initial measurement of investment property;
 - D. Tracking investment property by determining depreciation charge and impairment;
 - E. Disposal cases and their treatment bases;
 - F. Disclosures relating to investment property.

Scope



3. A federal entity that prepares and presents its financial statements in accordance with the accrual accounting principle adopted by the Federal Government shall apply this Standard in accounting for its investment property. This Standard applies to federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto.
4. This Standard does not apply to biological assets relating to agricultural activity (FGAAS 27 "Agriculture").

Identification and Classification of Assets as Investment Property



5. Investment property includes the following types of assets:
 - A. Property (building, land, part of a building or both) used to earn revenue from rent or for capital appreciation;
 - B. Property owned by a federal entity or leased as a right of use asset.

6. A federal entity may manage a portfolio of federal property on an accounting basis; in which case, the property held by said entity, other than property held for resale in the ordinary course of operations, shall be defined as investment property.



7. Property (buildings and land) used for the following purposes shall not be defined as investment property:
 - A. Those used for the production of goods or provision of services;
 - B. Those used for administrative purposes;
 - C. Those sold in the ordinary course of activity of a federal entity.
8. A federal entity may control an asset that may be legally owned by another federal entity. For example, a federal entity may control, be responsible for and recognise in its financial statements a building that is legally owned by another federal entity. In such circumstances, references to owner-occupied property (in the case of buildings or land) shall mean property occupied by the federal entity that recognises the same in its financial statements as the owner.



Example 16.1 - Examples of Assets that are Considered Investment Property

- A. A building owned by a federal entity (or a right-of-use asset relating to a building held by a federal entity) and leased out to external parties under an operating lease on a commercial basis.
- B. A building that is vacant but is held to be leased out in the future under an operating lease.
- C. Land (as applicable) held for capital appreciation rather than for short-term sale in the ordinary course of operations
- D. Land (as applicable) held for currently undetermined future uses. (If a federal entity has not determined that it will use the land as owner-occupied property, including using the same to provide services such as those provided by public parks to current and future generations, or for short-term sale in the ordinary course of operations, this property shall be regarded as held for capital appreciation).
- E. A property that is constructed or developed to be used in the future as an investment property.



9. A federal entity sometimes holds certain property to be used as follows:

- A. A portion held to earn rentals or for capital appreciation;
- B. Another portion held for use in the production or supply of goods or services or for administrative purposes

If these portions can be sold separately (or leased out separately under a finance lease), each portion shall be accounted for separately. If the portions cannot be sold separately, the property shall be classified as investment property only if an insignificant portion thereof is held for use in the production or supply of goods or services or for administrative purposes.



Example 16.2 - Examples of Assets that are Not Considered Investment Property

- A. Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. For example, a federal entity may gain profit or economic return by buying and selling property; in which case, property held exclusively with a view to subsequent disposal in the near future or for development for resale shall be classified as inventory (see FGAAS 12 “Inventory”).
- B. Property being constructed or developed on behalf another party. For example, the Ministry of infrastructure may enter into construction contracts with external parties to construct a building for the Ministry of Health (see FGAAS 11 “Revenue from Construction Contracts”).
- C. Owner-occupied property (see FGAAS 17 “Property, Plant and Equipment” and FGAAS 43 “Leases”), including property held for future use, property held for future development and use and property occupied by employees such as employees housing (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.
- D. Property that is leased to another (federal or external) entity under a finance lease.
- E. Property held by a federal entity for strategic purposes.

10. Federal entities shall not classify a property held for the delivery of a social service that generates nominal cash flows as investment property. In such a case, said property shall be accounted for in accordance with FGAAS 17 "Property, Plant and Equipment".



Example 16.3 - Property Dedicated for the Delivery of Social Services

The Ministry of Social affairs owns a group of buildings held and used to provide housing for low-income families at less than market rates.

Accordingly, the Ministry does not classify said property as investment property since it holds it to provide social services; rather than for earning rental or for capital appreciation.

11. Federal entities may lease out buildings or land and provide lessees with certain services. In such a case, the federal entity shall assess the significance of the services provided to lessees against the rental amount arising from the lease of the asset. Said assets shall be classified as follows:
- A. Investment property, when the value of the services provided is substantial to the arrangement as a whole. For example, when a federal entity owns a building for lease on a commercial basis and provides occupants with security and maintenance services;
 - B. Property, plant and equipment, when the services provided are more significant in other cases. For example, a federal entity may own a hotel or hostel that it manages; in which case, the services provided to guests are a substantial part of the arrangement as a whole. Therefore, a hotel or hostel managed by a federal entity shall be considered an owner-occupied property; rather than an investment property.
12. Professional judgment is needed to determine whether or not a property should be classified as investment property. A federal entity develops criteria so that it can exercise that judgment in accordance with the definition of investment property and with the related guidance in paragraphs 5 - 11. Paragraph 42 requires a federal entity to disclose these criteria applied when classification is difficult.

Judgment is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a public sector combination within the scope of FGAAS 40 "Business Combination".



13. In some cases, a federal entity may own property that is leased to, and used by, a controlling federal entity or another controlled entity. Accordingly, said property shall be classified as follows:
- A. As investment property in the separate financial statements of the owner; provided that said property meets the definition provided for in paragraph 14;
 - B. As property, plant and equipment in the consolidated financial statements of the Federal Government, because the property is owner-occupied.

Recognition



14. An owned investment property shall be recognised as assets when, and only when:
 - A. It is probable that the future economic benefits or service potential will flow to the federal entity from said property;
 - B. The cost or fair value of the investment property can be measured reliably.
15. Satisfaction of the first condition relating to the flow of future economic benefits or service potential shall be assessed based on the information and evidence available at the time of initial recognition. This condition is usually only met when a federal entity receives the gains and benefits, and assumes the risks, associated with the asset.
16. An investment property is usually acquired through exchange transactions where said assets are purchased at a particular cost; hence, the second condition relating to recognitions (paragraph 14B) is satisfied. In cases when a federal entity acquires investment property at no cost or for a nominal cost, cost shall be the fair value of said investment property at the date of acquisition.
17. An investment property may be acquired through non-exchange transactions. For example, a federal entity may transfer a building at no charge to another federal entity which then leases it out at market rates. An investment property may also be acquired through non-exchange transactions by the exercise of powers of sequestration. In these circumstances, the cost of the investment property shall be its fair value at the date of acquisition.
18. When initially recognising an investment property, a federal entity shall assess all the costs associated with the acquisition of said assets when the same are incurred.
19. A federal entity shall recognise costs incurred subsequently to add to, or replace part of, the property (replacing internal walls of a building or making a non-recurring replacement). Under the recognition principle, a federal entity shall recognise in the carrying amount of an investment property the cost of replacement of part of an existing investment property when said cost is incurred; if the recognition conditions prescribed in paragraph 15 are satisfied. The carrying amount of said replaced parts shall be derecognised in accordance with the disposal provisions prescribed in this Standard (see paragraphs 33 - 40).



Example 16.4 - Recognition of Investment Property

At the beginning of the current year, a federal entity purchased a building from a third party for AED 2,000,000 to lease it out as offices to private establishments.

Accordingly, the federal entity recognises said building as investment property because all the following conditions are satisfied:

- A. The flow of economic benefits and service potential by leasing the building out to the benefit of the federal entity
- B. The ability to reliably measure the cost which is the purchase price
- C. The fact the federal entity has gained control over the building by acquiring it

Therefore, the entity shall make the following entry:

Description	Debit	Credit
Investment Property - Building	2,000,000	
Cash - Bank Account		2,000,000

20. A federal entity shall not recognise the costs of day-to-day maintenance of an investment property in the carrying amount of said investment property, but rather recognises said costs in the statement of financial performance when they are incurred. Costs of day-to-day maintenance are costs of labor and consumables, and may include the cost of minor parts and routine repairs and maintenance of investment property.
21. An investment property held by a lessee as a right-of-use asset shall be recognized in accordance with FGAAS 43.

Measurement

Measurement at Recognition



22. Assets shall be initially measured in accordance with the nature of the transactions which lead to acquisition of the same as follows:

Investment Property Acquired through Exchange Transactions	Investment Property Acquired through Non-exchange Transactions
An investment property that is acquired through an exchange transaction shall be measured initially at cost which comprises: A. The purchase price including professional fees of legal services, property transfer taxes and non-refundable purchase taxes after deducting trade discount and rebate. B. Any other direct expenses incurred in making the asset ready for use as intended by management;	With respect to an owned investment property that is acquired through a non-exchange transaction, its cost shall be its fair value at the date of acquisition.

23. The cost of investment property shall not include:

- A. Start-up costs; unless they are necessary to prepare property for its intended use in the manner determined by management;
- B. Initial operating losses incurred before the investment property achieves the planned level of occupancy; or
- C. Abnormal amounts of wasted material, labor and other resources incurred in constructing or developing the property.

24. If payment of the price of an investment property is deferred by a federal entity, the cost of said asset shall be equal to cash price. The difference between this amount and the total payments shall be recognised as interest expense over the period of credit.

**Example 16.5 - Recognition of Investment Property Acquired through Exchange Transactions**

At the beginning of the current year, a federal entity purchased a building from a third party for AED 3,000,000 to lease it out to private establishments. The purchase was financed through a loan of AED 3,000,000 (at 5% interest for 5 years), and borrowing fees were AED 50,000. Direct title transfer expenses were AED 60,000.

Accordingly, the following costs are recognised in investment property:

- A. Purchase price: AED 3,000,000
- B. Interest accrued: Shall not be capitalised
- C. Borrowing fees: Shall not be capitalised
- D. Title transfer expense: AED 60,000

Therefore, the federal entity shall make the following entry:

Description	Debit	Credit
Investment Property - Building	3,060,000	
Cash - Bank Account		3,060,000

The federal entity also developed the building and converted it into administrative offices which it leased out to independent third parties under operating leases. Development expenses included architectural and planning costs of AED 100,000 and building development costs of AED 1,350,000. Once the development is complete and offices are ready for lease, said costs shall be recognised in investment property.

Therefore, the federal entity shall make the following entry:

Description	Debit	Credit
Investment Property - Building	1,450,000	
Cash - Bank Account		1,450,000

Accordingly, the total cost of this investment property (building) is AED 4,510,000.

Example 16.6 - Recognition of Investment Property Acquired through Non-exchange Transactions

A federal entity transferred a building to the Ministry of Economy under an agreement between the two parties providing for a conditional transfer of the ownership of said building to the Ministry of Economy to be used for the remainder of its useful life by leasing it out to technology companies. The transferred fair value of the building was AED 2,500,000. Accordingly, the received asset will be carried at its fair value against a liability (deferred revenue) arising from the agreement referred to above.

Therefore, the Ministry of Economy shall record said transaction as follows:

Description	Debit	Credit
Investment Property - Building	2,500,000	
Liability - Deferred Revenue		2,500,000

During the asset usage period, after satisfying implicit conditions, the asset depreciation amount for the period was estimated at AED 50,000. Accordingly, depreciation will be recorded in addition to revenue from a non-exchange transaction to reduce the amount of previously recorded liability (deferred revenue).

Therefore, the Ministry of Economy shall record the transaction as follows:

Description	Debit	Credit
Depreciation Charge - Building	50,000	
Accumulated Depreciation - Building		50,000

Description	Debit	Credit
Liability - Deferred Revenue	50,000	
Revenue from a Non-exchange Transaction		50,000



25. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of investment properties may be measured at fair values if:

- A. The exchange transaction has a commercial substance which is determined by considering the extent to which its future cash flows or service potential are expected to change. An exchange transaction shall have a commercial substance in the following cases:
 - ✓ If the configuration (risks, timing and amount) of the cash flows or service potential of the asset received differ from the configuration of the cash flows or service potential of the asset transferred;
 - ✓ If the federal entity-specific value of the portion of its operations affected by the transaction changes as a result of the exchange;
 - ✓ If the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.
- B. The fair value of the received and transferred investment properties is reliably measurable. The purchased item shall be measured this way even if the federal entity is unable to immediately derecognise the investment properties given up. If the purchased item is not measured at fair value, its cost shall be measured at the carrying amount of assets given up.



26. In the absence of comparable market transactions, the fair value of an asset shall be reliably measurable by the federal entity if:

- A. The variability in the range of reasonable fair value estimates is not significant for that asset; or
- B. The probabilities of the various estimates within the range can be reasonably assessed and used in estimating the asset's fair value.

27. If the federal entity is able to reliably determine the fair value of either the asset received or the asset given up, then the fair value of the asset given up may be used to measure the cost of the asset received; unless the fair value of the asset received is more clearly evident.

An investment property held by a lessee as a right-of-use asset shall be measured initially in accordance with FGAAS 43.

Measurement after Recognition



28. A federal entity shall apply the cost model after initial recognition where all investment properties are subsequently measured:
- A. In accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);
 - B. In accordance with FGAAS 43, Leases, if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with FGAAS 44; and
 - C. In accordance with the requirements in FGAAS 17 for the cost model in all other cases
29. This Standard requires all federal entities to determine the fair value of investment property, for the disclosure purposes only (see paragraph 44).

Transfers



30. When using the cost model, all transfers between investment property, owner-occupied property and inventory shall be made at the same carrying amount of reclassified properties without changing the cost of said properties for measurement or disclosure purposes.



31. Transfers to, or from, investment property shall be made when there is a change in use evidenced by:
- A. Commencement of occupation by the owner (federal entity), for a transfer from investment property to owner-occupied property;
 - B. End of occupation by the owner (federal entity), for a transfer from owner-occupied property to investment property;
 - C. Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventory to investment property;
 - D. Commencement of development for sale purposes, for a transfer from investment property to inventory;
32. The last point in paragraph 31 above requires a federal entity to transfer a property from investment property to inventory only when there is a change in the use of said property evidenced by commencement of development for sale purposes. When a federal entity decides to dispose of an investment property without development, it shall continue to treat the property as an investment property until it is derecognised (i.e. eliminated from the statement of financial position) and is therefore not classified as inventory. Similarly, when a federal entity begins to redevelop an already existing investment property for continued future use as investment property, the property shall remain an investment property and is not reclassified as owner-occupied property (occupied by the federal entity) during the redevelopment period.



Example 16.7 - Recognition of Transfers from Investment Property to Inventory

A federal entity converted a building that is leased out as offices to private companies with a carrying amount of AED 300,000 (AED 3,000,000 in costs less AED 2,700,000 in accumulated depreciation) into a building for sale. The development of the building for sale purposes commenced on March 31, 2015.

Accordingly, on March 31, 2015, the federal entity transfers the building from investment property to inventory and records the transaction as follows:

Description	Debit	Credit
Inventory	300,000	
Accumulated Depreciation of Investment Property - Building	2,700,000	
Investment Property - Building		3,000,000

Example 16.8 - Recognition of Transfers from Investment Property to Property, Plant and Equipment

At the beginning of the current year, a federal entity converted a building that is leased out as offices to private companies with a carrying amount of AED 300,000 (AED 3,000,000 in costs less AED 2,700,000 in accumulated depreciation) into a building for use by the federal entity as administrative offices. When the federal entity commences the use of the building, it transfers the building from investment property to property, plant and equipment and records the transaction as follows:

Description	Debit	Credit
Fixed Asset - Building	300,000	
Accumulated Depreciation of Investment Property - Building	2,700,000	
Investment Property - Building		3,000,000

Disposal of Investment Property

33. An investment property shall be derecognised and eliminated from a federal entity's statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.
34. Investment property may be disposed of by sale or lease to others under a finance lease. In determining the date of disposal (by sale) of investment property, a federal entity shall apply FGAAS 9 "Revenue from Exchange Transactions". When disposing of investment property by a finance lease or for sale or leaseback, a federal entity shall apply FGAAS 43 "Leases".

35. The costs of replacement of part of an investment property shall, if recognition conditions are satisfied, be recognised in the carrying amount of the asset and the carrying amount (cost less accumulated depreciation) of the part disposed of shall then be derecognised. If the cost and depreciation of the replaced part cannot be determined separately, the federal entity may use the cost of the new part as an indication of what the cost of the replaced part was at the time it was purchased or constructed.
36. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and the surplus or deficit shall be recognised in the statement of financial performance (unless FGAAS 43, "Leases" requires otherwise on sale and leaseback) in the same period of retirement or disposal of the investment property.
37. A federal entity shall apply FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" or other Standards, as appropriate, to any liability that it retains after disposal of an investment property.
38. The consideration receivable on disposal of an investment property is recognised initially at fair value. If payment is deferred, the investment property's sale price shall be its cash price equivalent (i.e., the amount that the federal entity would accept on immediate payment). The difference between the nominal amount of the consideration and the cash price equivalent of the property shall be recognised as interest revenue in accordance with FGAAS 9 "Revenue from Exchange Transactions" using the effective interest method (which is a method of calculating the amortised cost of a financial asset and allocate interest to income over the relevant period).
39. Compensations from third parties for investment property that was impaired, lost or given up shall be recognised in the statement of financial performance when compensations become receivable.
40. Impairments or losses related to investment property or claims for or payments of relevant compensations to third parties and any subsequent purchase or construction of replacement assets shall be considered separate economic events and be accounted for separately as follows:
 - A. Impairment of investment property shall be recognised in accordance with FGAAS 26 "Impairment of Cash-Generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets" as may be necessary;
 - B. Retirements or disposals of investment property shall be recognised in accordance with paragraphs 32-39 of this Standard;
 - C. Compensations from third parties for investment property that was impaired, lost or given up shall be recognised as prescribed in paragraph 39 of this Standard;
 - D. The cost of assets restored, purchased or constructed as replacement assets shall be determined in accordance with paragraphs 21-22 and 24-29 of this Standard.



Example 16.9 - Derecognition through Sale

A federal entity sold a building that is classified as investment property with a carrying amount of AED 200,000 (AED 3,000,000 in costs less AED 2,800,000 in accumulated depreciation) to a third party for AED 500,000.

Once the building is handed over and risks, future benefits and title are transferred to the buyer, the federal entity shall make the following entries:

Description	Debit	Credit
Cash - Bank Account	500,000	
Accumulated Depreciation	2,800,000	
Investment Property - Building		3,000,000
Profit from Sale		300,000

**Example 16.10 - Derecognition through Disposal**

A federal entity disposed of a building by demolition. The carrying amount of the building was AED 50,000 (AED 3,000,000 in costs less AED 2,950,000 in accumulated depreciation).

Accordingly, once the demolition decision is made and approved, the federal entity shall make the following entries:

Description	Debit	Credit
Accumulated Depreciation	2,950,000	
Loss from Disposal	50,000	
Investment Property - Building		3,000,000

Disclosures



41. The disclosures below shall apply in addition to those in FGAAS 43 “Leases”. An entity that owns an investment property shall provide disclosures about existing leases. A lessee that holds an investment property as a right-of-use asset shall also provide lessees’ disclosures as required by FGAAS 43 “Leases” and lessors’ disclosures as required by FGAAS 43 “Leases” for any existing operating leases.
42. A federal entity shall disclose:
- A. The application of the cost model;
 - B. The criteria for practices used by the federal entity to distinguish investment property from property used by the entity or property held thereby for sale in the ordinary course of operations; when classification is difficult (see paragraph 13);
 - C. The particular methods and significant assumptions used in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was largely based on other factors (which the federal entity shall disclose) because of the nature of the property and lack of comparable market data.
 - D. Whether the fair value of investment property listed in the financial statements (in terms of measurement or disclosure) is based on a valuation by an independent valuer with recognised and relevant professional qualifications and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall also be disclosed by the federal entity;
 - E. The amounts presented in the statement of financial performance for:
 - ✓ Rental revenue from investment property;
 - ✓ Direct operating expenses (including repair and maintenance expenses) arising from investment property that generated rental revenue during the period;
 - ✓ Direct operating expenses (including repair and maintenance expenses) arising from investment property that did not generate rental revenue during the period;
 - F. The existence of restrictions on the realization of revenue from investment property or the remittance of revenue and proceeds of disposal, and the magnitude of said restrictions;
 - G. Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.
43. In addition, a federal entity shall disclose:
- A. The depreciation method - Straight line;
 - B. The useful life or depreciation rates used;

- C. The gross carrying amount and accumulated depreciation (including accumulated impairment losses) at the beginning and end of the period;
 - D. A reconciliation of the carrying amount of investment property at the beginning and end of the period showing (comparable information is not required):
 - ✓ Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
 - ✓ Additions resulting from acquisitions through federal entity combinations;
 - ✓ Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FGAAS 44 and other disposals;
 - ✓ Depreciation;
 - ✓ The amount of impairment losses recognised and the amount of impairment losses reversed during the period in accordance with FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets", as needed;
 - ✓ The net exchange differences arising from the translation of the financial statements into a different presentation currency, and net exchange differences arising from the translation of financial statements presented in a currency other than the presentation currency (i.e. AED);
 - ✓ Transfers to and from inventory and owner-occupied property;
 - ✓ Other changes;
 - E. The fair value of investment property. When a federal entity cannot determine the fair value of the investment property reliably, it shall disclose:
 - ✓ A description of the investment property;
 - ✓ A explanation of why fair value cannot be determined reliably;
 - ✓ The range of estimates within which fair value is highly likely to lie, if possible.
 - F. A determination of the fair value of investment property.
44. A federal entity that uses the cost model to measure investment property shall disclose the fair value of said property in the financial statements prepared on the accrual basis.

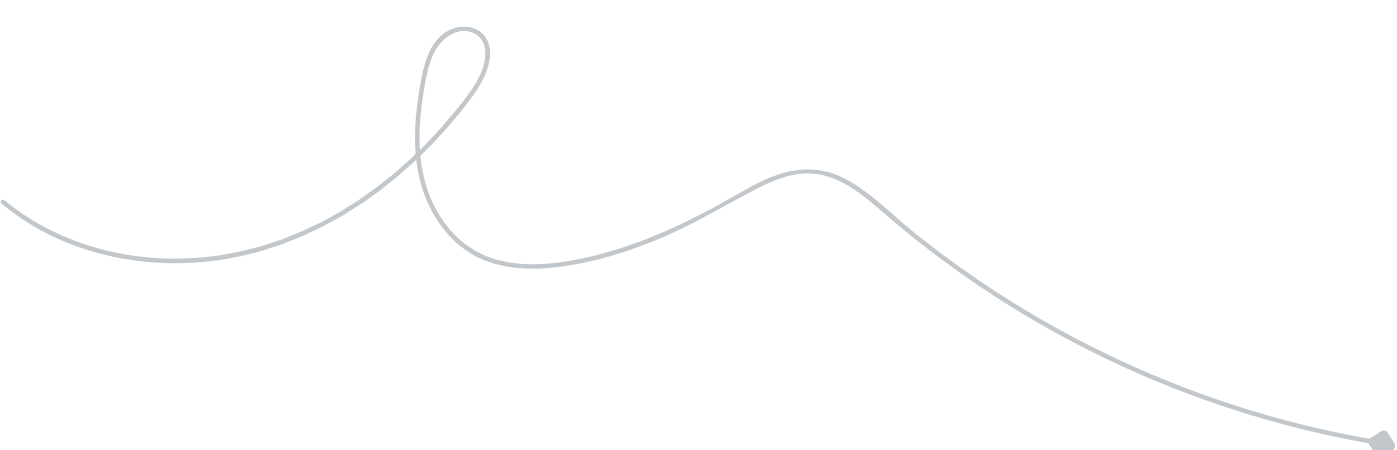
Identification and Determination of Fair Value of Investment Property

- A. The fair value of investment property is the price at which the property could be exchanged between knowledgeable and willing parties in a commercial transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as conditional financing, sale, leaseback, special considerations or concessions granted by anyone associated with the sale.
- B. A federal entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

Identification and Determination of Fair Value of Investment Property

- C. The fair value of investment property does not reflect capital expenditure that would improve or enhance property, nor does it reflect relevant future economic benefits of said future expenditure.
- D. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. A federal entity takes care when identifying any differences in the nature, location or condition of the property or in the contractual terms and other contracts relating to the property.
- E. In the absence of current prices in an active market, a federal entity considers information from a variety of sources, including:
 - ✓ Current prices in an active market for properties of different nature and location (or subject to different leases or other contracts), adjusted to reflect those differences;
 - ✓ Recent prices in a less active market, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
 - ✓ Future cash flows projections, supported by the terms of any existing leases or other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect market assessment of the uncertainty in the amount and timing of said cash flows.

In some cases, the various sources may lead to different conclusions about the fair value of an investment property. A federal entity shall consider the reasons for those differences, in order to arrive at a reliable and transparent estimate of fair value.



Standard 31 - Intangible Assets

Standard 31 - Intangible Assets

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 31 (IPSAS 31) which provides for recognition, measurement bases, presentation and disclosure of intangible assets. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to prescribe the accounting treatment for intangible assets and related disclosure requirements, so that users of financial statements can verify and follow up on the information relating to a federal entity's intangible assets.
2. This Standard primarily addresses the following topics:
 - A. Classifying and identifying intangible assets;
 - B. Prescribing intangible assets recognition requirements;
 - C. Determining the costs of initial measurement of intangible assets;
 - D. Determining the useful lives and amortisation methods for intangible assets with finite useful lives;
 - E. Tracking intangible assets by determining amortisation charge and impairment
 - F. Derecognition and treatment;
 - G. Bases for presenting said assets in financial statements and related disclosures.

Scope



3. This Standard applies to federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto.
4. This Standard shall be applied in accounting for intangibles assets, except for:
 - A. Financial assets, as defined in FGAAS 41 "Financial Instruments";
 - B. Powers and rights conferred by legislation, constitution or other means;
 - C. Intangible assets held by a federal entity for sale in the ordinary course of operations (see FGAAS 11 "Revenue from Construction Contracts" and FGAAS 12 "Inventory").
 - D. Leases of intangible assets accounted for in accordance with FGAAS 43 "Leases";
 - E. Assets arising from employee benefits (see FGAAS 39 "Employee Benefits");
 - F. Recognition and initial measurement of service concession assets that are within the scope of FGAAS 32 "Service Concession Assets: Grantor". However, this Standard applies to the subsequent measurement and disclosure of such assets.
 - G. Goodwill (see FGAAS 40 "Public Sector Combinations").
 - H. Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations.
5. This Standard shall apply to expenditure on advertising, training, start-up and research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical

substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

6. Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents are within the scope of this Standard and are excluded from the scope of FGAAS 43.

Identification of Intangible Assets



7. Projects frequently expend resources or incur liabilities on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes and systems, licenses, intellectual property and trademarks (including brand names and publishing titles). Many of said resources do not meet the definition of an intangible asset, i.e., identifiability; control over a resource and existence of future economic benefits or service potential. If an asset within the scope of this Standard does not meet the definition of an intangible asset, it shall be recognised as an expense when it is acquired or internally generated. However, if the item is acquired in an acquisition, it forms part of the goodwill recognized at the acquisition date.
8. The definition of an intangible asset requires asset to be identifiable to distinguish it from goodwill. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.



9. A federal entity shall define intangible assets when they meet the following characteristics:
 - A. Identifiability;
 - B. Control of the asset;
 - C. Flow of future economic benefits or service potential;
 - D. An asset without physical substance.

Identifiability



10. An asset shall be identifiable if:
 - A. It is separable. An asset shall be separable if the federal entity can lease, sell or exchange it, either individually or together with other assets under related contracts, regardless of whether or not the federal entity intends to do so; or
 - B. It arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the federal entity or from other rights and obligations.
11. A binding arrangement, within the scope of this Standard, is an arrangement that confers similar rights and obligations on the parties thereto as if it were a contract.

Control of an Asset



12. A federal entity controls an asset if the federal entity has the power to obtain the future economic benefits or service potential flowing from the resource and to restrict the access of others to those benefits. The ability of a federal entity to control the future economic benefits or service potential from an intangible asset normally arise from legal rights that are enforceable in a court of law. Although it is difficult to demonstrate control in the absence of legal rights, legal enforceability is not a necessary condition for control because a federal entity may be able to control the future economic benefits or service potential in some other way.
13. Scientific or technical knowledge may result in a flow of future economic benefits or service potential to a federal entity. A federal entity controls those benefits or that service potential if said scientific or technical knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or a legal duty on employees to maintain confidentiality.
14. A federal entity may have a team of skilled staff and may be able to identify additional staff skills leading to future economic benefits or service potential through training. The federal entity may also expect that its staff will continue to make their skills available to the entity. However, a federal entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. Accordingly, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition in paragraph 9.
15. A federal entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to deal with the federal entity. However, in the absence of legal rights to protect, or other ways to control the relationships with said users or their loyalty, the federal entity will have insufficient control over the economic benefits or service potential from relationships with users of said service and loyalty for such items to meet the definition of intangible assets. In the absence of legal rights to protect

such relationships, exchange transactions for the same or similar non-contractual customer relationships provide evidence that the federal entity is nonetheless able to control the expected future economic benefits or service potential arising from the relationships with the users of the service. Because such exchange transactions also provide evidence that the relationships with users are separable, those relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential



16. The future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by a federal entity. For example, the use of intellectual property in a production or service process may reduce future production or service delivery costs or improve service delivery rather than increase future revenues. For example, an on-line system that allows citizens to renew driving licenses more quickly, resulting in a reduction in the number of employees required to perform this function while increasing the processing speed.

Assets without Physical Substance



17. Some intangible assets may be contained in another physical asset such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under FGAAS 17 "Property, Plant, and Equipment", or as an intangible asset under this Standard, professional judgment is required to assess which element is more significant. For more information on computer software in property, plant and equipment, please refer to FGAAS 17 "Property, Plant and Equipment"



Example 31.1 - Recognition of Usufruct

At the beginning of the current year, the UAE Executive Council granted a federal entity usufruct in a land for 99 years. The agreement grants the federal entity the right to use said land for (administrative or social) service-related purposes or lease it out to third parties, with the right to revenues arising from the same.

Accordingly, the federal entity verifies the conditions for recognising an intangible asset are met by reviewing the key conditions for identifying an intangible assets; which are:

- ✓ Identifiability: The asset arises from an agreement that is binding to both parties, in addition to federal entity's ability to lease the asset separately.
- ✓ Control of the asset: The federal entity is able to control the asset through the usufruct conferred;
- ✓ Future economic benefits or service potential: Future economic benefits and service potential are expected to flow from the use of the asset for administrative and social purposes or from rental revenue;
- ✓ An asset without physical substance: The right cannot have any tangible physical substance, but is rather a right that is enjoyed for a specified period;

Example 31.1 - Recognition of Usufruct

Therefore, the federal entity shall treat this asset as an intangible asset and shall recognise, measure and disclose it based on this Standard.

Recording Intangible Assets**Recognition - General**

18. A federal entity shall recognise an intangible asset if, and only if:
 - A. It is probable that the future economic benefits or service potential that are attributable to the asset will flow to the federal entity; and
 - B. The cost or fair value of the asset can be measured reliably.
19. A federal entity shall assess the probability of future economic benefits or service potential using reasonable and supportable assumptions that represent best estimate of the set of economic conditions that will exist over the asset's useful life.
20. A federal entity shall use personal judgment to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the asset on the basis of the evidence available at the time of initial recognition, and shall give greater weight to external evidence.

Measurement - General

21. A federal entity shall measure an intangible asset initially at the cost incurred in acquiring the same. Where an intangible asset is acquired through a non-exchange transaction, its initial cost shall be measured at its fair value on said date.

Separate Acquisition - Purchase of Intangible Assets**Recognition**

22. The price a federal entity pays to separately acquire an intangible asset normally reflects expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the federal entity. In other words, the federal entity expects an inflow of economic benefits or service potential, even if the timing or the amount of the inflow are uncertain. Therefore, the probability recognition criterion in paragraph 18 shall always be considered satisfied for separately acquired intangible assets.
23. With respect to the second condition (paragraph 18 "B") relating to reliable measurability, the cost of a separately acquired intangible asset can usually be measured reliably. This is

particularly so when the purchase consideration is in the form of cash or other monetary assets.

Measurement



24. The cost of a separately acquired intangible asset comprises:

- A. Its purchase price, including import duties and non-refundable purchase taxes, if any, after deducting trade discounts and rebates;
- B. Any cost that is directly attributable to preparing the asset for its intended use.

25. Examples of directly attributable costs include:

- A. Employee benefits (as defined in FGAAS 39 "Employee Benefits") arising directly from preparing the asset for its intended use;
- B. Professional fees arising directly from preparing the asset for its intended use;
- C. Costs of testing whether the asset is functioning properly.

26. Examples of expenses that are not considered part of the cost of an intangible asset include:

- A. Costs of introducing a new product or service (including costs of advertising and promotional activities);
- B. Costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training);
- C. Administration and other general overhead costs.



27. Recognition of costs in the carrying amount of an intangible asset shall cease when the asset is in the condition necessary for it to be ready for operating in the manner intended by management. Therefore, costs incurred in using or reusing an intangible asset shall not be included in the carrying amount of that asset. For example, the following costs shall not be included in the carrying amount of an intangible asset:

- A. Costs incurred while an asset capable of operating in the manner intended by management is being prepared for use. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be ready for use in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be ready for use in the manner intended by management, the revenue and related expenses of incidental operations are recognised immediately in the statement of financial performance, and included in their respective classifications of revenue and expense.
- B. Initial operating deficit, such as those costs incurred as the demand for the asset's outputs increases.

28. If a due payment for an intangible asset is deferred beyond normal payment term, its cost shall be the cash price equivalent. The difference between this amount and the total



payments shall be recognised as interest expense over the credit period; unless it is capitalised in accordance with the capitalisation treatment permitted in FGAAS 5 "Borrowing Costs".

Example 31.2 - Recognition of Separately Acquired Intangible Asset

At the beginning of the current year, a federal entity purchased new software to operate its production equipment from a third party for AED 100,000 including a non-refundable custom duty of AED 20,000.

In addition, the entity incurred AED 6,000 in software testing costs, AED 4,000 in installation costs and AED 15,000 in costs of the technical team to make the necessary modifications in order for the new software to operate in the manner intended by management.

Accordingly, the federal entity shall make the following entry:

Description	Debit	Credit
Intangible Asset - Software *	125,000	
Cash - Bank Account		125,000

*Calculated as follows: 100,000 + 6,000 + 4,000 + 15,000

Acquisition of an intangible asset as part of an acquisition (Business Combination)

Recognition



29. In accordance with FGAAS 40 "Business Combination", if an intangible asset is acquired in an acquisition, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of inflow. Therefore, the probability recognition criterion in paragraph 18(A) is always considered to be satisfied for intangible assets acquired in acquisitions.

If an asset acquired in an acquisition is separable or arises from binding arrangements (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. Thus the reliable measurement criterion in paragraph 18(B) is always considered to be satisfied for intangible assets acquired in acquisitions.

30. In accordance with this Standard and FGAAS 40 "Business Combination", an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquired operation, irrespective of whether the asset had been recognized by the acquired operation before the acquisition. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquired operation if the project meets the definition of an intangible asset. An acquired operation's in-process research and development project meets the definition of an intangible asset when it:
- A. Meets the definition of an asset; and

- B. Is identifiable, i.e., is separable or arises from binding arrangements (including rights from contracts or other legal rights).

Measurement



31. If an intangible asset acquired in an acquisition is separable or arises from a binding arrangement (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities that uncertainty enters into the measurement of the asset's fair value.
32. An intangible asset acquired in an acquisition might be separable, but only together with a related binding arrangement, identifiable asset or liability. In such cases, the acquirer recognizes the intangible asset separately from goodwill, but together with the related item.
33. The acquirer may recognize a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.

Intangible Assets Acquired through Non-exchange Transactions

Recognition



34. In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when a federal entity transfers to another entity (which may include a federal entity or third party) intangible assets such as airport landing rights, licenses to operate radio or television stations, licenses or rights to access other restricted resources of a federal entity; in a non-exchange transaction. Similarly, a civil citizen (e.g. a Nobel Prize winner) may bequeath his personal papers, including copyright to his publications, to the Federal Government in a non-exchange transaction.

Measurement



35. Under these circumstances, the cost of the asset shall be its fair value at the date of acquisition.



Example 31.3 - Recognition of an Intangible Asset Acquired through Non-exchange Transactions

A federal entity transferred three similar licenses to another federal entity under a mutual agreement which provides for a conditional transfer of the ownership of said licenses from the first party to the second party which shall use the same for the remainder of their useful life which was estimated to be five years.

Example 31.3 - Recognition of an Intangible Asset Acquired through Non-exchange Transactions

The fair value of the transferred licenses is AED 300,000. Therefore, the asset received will be carried at fair value against a liability (deferred revenue) arising from the agreement referred to above.

Accordingly, the federal entity (second party) shall record said transaction as follows:

Description	Debit	Credit
Intangible Asset - Broadcasting Licenses	300,0000	
Liability - Deferred Revenue		300,000

During the asset usage period, after satisfying implicit conditions (using the asset for the remainder of the period), the asset amortisation amount is estimated at AED 60,000.

Accordingly, amortisation will be recorded in addition to revenue from a non-exchange transaction to reduce the amount of previously recorded liability (deferred revenue).

Accordingly, the federal entity (second party) shall record the transaction as follows:

Description	Debit	Credit
Amortisation Expense - Broadcasting Licenses	60,000	
Accumulated Amortisation - Broadcasting Licenses		60,000

Description	Debit	Credit
Liability - Deferred Revenue	60,000	
Revenue from a Non-exchange Transaction		60,000

Internally Generated Intangible Assets

Recognition



36. It may sometimes be difficult for a federal entity to assess whether an internally generated intangible asset meets recognition conditions, and it is often difficult to:

- A. Determine whether there is an identifiable asset that will generate future economic benefits or service potential;
- B. Determine the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the federal entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, a federal entity shall apply the requirements and guidance in paragraphs 34-49 below to all internally generated intangible assets.

37. A federal entity shall assess whether an internally generated intangible asset meets the criteria for recognition, and classifies the generation or construction of the asset into:
 - A. A research phase;
 - B. A development phase.
38. If a federal entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the federal entity shall treat the expenditure on that project as if it were incurred in the research phase only.

Research Phase



39. A federal entity shall not recognise any intangible asset arising from research (or from the research phase of an internal project). Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred; as the federal entity cannot demonstrate the existence of an intangible asset that will generate future economic benefits or service potential.
40. Examples of research activities include:
 - A. Activities aimed at obtaining new knowledge;
 - B. The search for, evaluation and final selection of, applications of research findings or other knowledge;
 - C. The search for alternatives for materials, devices, products, processes, systems or services;
 - D. The formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development Phase



41. The development phase comes after the research phase. An intangible asset arising from this phase (or from the development phase of an internal project) may be recognised if, and only if, the federal entity can verify the following:
 - A. The technical feasibility of completing the intangible asset so that it becomes available for use or sale;
 - B. Its intention to complete the intangible asset and use or sell it;
 - C. Its ability to use or sell the asset;
 - D. The ability of the intangible asset to generate future economic benefits or service potential. The federal entity shall verify the existence of a market for the outputs of the intangible asset or the intangible asset itself, or the usefulness of the intangible asset; if it is to be used internally;
 - E. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; e. g. by an operation plan

detailing technical, financial and other necessary resources and the federal entity's ability to secure said resources;

- F. Its ability to reliably measure the expenditure attributable to the intangible asset during its development; such as remuneration and other expenditures incurred in obtaining copyrights or licenses or developing computer software.

42. Examples of development activities include:

- A. The design, construction and testing of pre-production or post-use prototypes and models;
- B. The design of tools, jigs, molds and dies involving new technology;
- C. The design, construction and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services;
- D. The design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services;
- E. Websites building costs and computer software development costs.

43. To demonstrate how an intangible asset will generate future economic benefits or service potential, a federal entity shall assess the future economic benefits or service potential to be received from the asset using the principles of FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets", as appropriate. If the asset will generate economic benefits or service potential in combination with other assets, the federal entity shall apply the concept of cash-generating units as prescribed in FGAAS 26 "Impairment of Cash-generating Assets".



44. Internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance shall not be recognised as intangible assets; because expenditure on internally generated brands, mastheads, publishing titles, lists of users of a service and items similar in substance cannot be distinguished from the cost of developing the federal entity's operations as a whole.

Measurement



- 45. The cost of an internally generated intangible asset for the purpose of paragraph 21 shall be the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria; namely, satisfying the conditions of the "Development Phase". Paragraph 59 prohibits reinstatement of expenditure previously recognised as an expense in previous financial statements or interim financial reports.
- 46. The cost of an internally generated intangible asset shall include all expenditure necessary to create, construct, make or prepare an asset that is capable of operating in the manner intended by management. Examples of direct costs include:

- A. Expenditure on materials and services used or consumed in generating the intangible asset;
- B. Employee remuneration (as defined in FGAAS 39 "Employee Benefits") arising from the generation of the intangible asset;
- C. Legal right registration expenses;
- D. Amortisation of patents and licenses used to generate the intangible asset.

FGAAS 5 "Borrowing Costs" specifies the criteria for the recognition of interest as an element of the cost of an asset that is a qualifying asset.

47. The following are not elements of the cost of an internally generated intangible asset:

- A. Selling, administrative and other general fixed expenses, unless they are directly used in preparing the asset for use;
- B. Inefficiency and initial operating deficit incurred before the asset achieves planned performance;
- C. Expenditure on staff training to operate the asset.



Example 31.4 - Recognition of an Internally Generated Intangible Asset

At the beginning of the current year, a federal entity that is specialised in pharmaceuticals worked on inventing a new drug and incurred the following expenses on raw material, research and development:

- ✓ AED 100,000 on testing chemical substances to discover new compounds.
- ✓ AED 300,000 to assess compound fitness.
- ✓ AED 150,000 on pilot commercial production.
- ✓ AED 200,000 on advertising the new product.
- ✓ AED 500,000 in patent registration costs.

Accordingly, the federal entity is ready to finalise the new invention so that it can market and sell it to interested persons. Therefore, the federal entity will review the key conditions for recognising an internally generated intangible asset and treat patent registration costs as an internally generated intangible asset, in addition to pilot production costs as the conditions for capitalising the development costs are met. Other costs will be recognised in expenses when they are incurred.

Accordingly, the federal entity shall record the transaction as follows:

Description	Debit	Credit
Intangible Asset - Patent *	650,000	
Expenses	600,000	
Cash - Bank Account		1,250,000

*Calculated as follows: 150,000 + 500,000 (Initial testing costs and patent registration costs)

Subsequent Expenditure on an Acquired In-process Research and Development Project



48. A federal entity shall recognise research and development expenditure that:

- A. Relates to an in-process research or development project acquired separately and recognised as an intangible asset;
- B. Is incurred after the acquisition of that project;

49. Applying the requirements in paragraphs 39-44 means that subsequent expenditure on a research or development project acquired separately and recognised as an intangible asset shall be treated as follows:

- A. Recognised as an expense when incurred if it is research expenditure;
- B. Recognised as an expense when incurred if it is development expenditure that does not satisfy the conditions for recognition as an intangible asset in paragraph 41;
- C. Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition conditions in paragraph 41.

Exchange of Assets

Recognition



50. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. One or more intangible assets may be purchased in return for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. This Standard shall also apply to an exchange of one non-monetary asset for another.

Measurement



51. A federal entity shall measure the cost of an intangible asset at fair value if said value is reliably measurable. If a purchased asset is not measured at fair value, its cost shall be measured at the carrying amount of the asset given up.



52. The fair value of an intangible asset for which there is no comparable market transactions shall be reliably measurable if:
- A. The variability in the range of reasonable fair value estimates is not significant for that asset; or
 - B. The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the federal entity is able to reliably determine the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.



Example 31.5 - Recognition of an Intangible Asset Acquired through Exchange of Assets

At the beginning of the current year, a federal entity obtained sport channels broadcasting rights from a third party for 100 ounces of gold when gold was traded at AED 4,000 per ounce. In addition, the entity incurred AED 10,000 in official broadcasting right registration fees, AED 5,000 in new management announcement costs and AED 15,000 in broadcasting technology team charges for further necessary modifications to improve broadcasting quality upon management request.

Accordingly, the federal entity shall review the key conditions for recognising an intangible asset acquired through exchange of assets and treat the fair value of broadcasting rights (gold price) and official broadcasting right registration fees as intangible assets recognised, measured and disclosed based on this Standard. Other costs (AED 5,000 in new management announcement costs and AED 15,000 in costs of necessary modification to improve broadcasting quality) shall be recognised in expenses when incurred.

Therefore, the federal entity shall make the following entry:

Description	Debit	Credit
Intangible Asset - Broadcasting Rights *	410,000	

Example 31.5 - Recognition of an Intangible Asset Acquired through Exchange of Assets

Expenses	20,000	
Cash - Bank Account		430,000

*Calculated as follows: $10,000 + (4,000 \times 100)$

Internally Generated Goodwill**Recognition**

53. Internally generated goodwill shall not be recognised as an asset.
54. In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (because it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights)) controlled by the federal entity that can be measured reliably at cost.

Measurement

55. Internally generated goodwill is not recognised and, therefore, not measurable because the differences between the market value of a federal entity and the carrying amount of its identifiable net assets at any point in time may capture a series of factors that affect the value of the federal entity. Such differences cannot be considered representative of the cost of intangible assets controlled by the federal entity.

Recognition of Expenditure Relating to an Intangible Asset as an Expense

56. A federal entity shall recognise expenditure on an intangible item as an expense when it is incurred, unless:
- It forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 22-55).
 - The item is acquired in an acquisition and cannot be recognized as an intangible asset. If this is the case, it forms part of the amount recognized as goodwill at the acquisition date (see FGAAS 40).
57. In some cases, expenditure is incurred to provide future economic benefits or service potential to a federal entity, but no recognisable intangible or other asset is acquired or created. In the case of the supply of goods, the federal entity shall recognise such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the federal entity shall recognise the expenditure as an expense when it receives



the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 39). Except when it is acquired as part of an acquisition.

Example 31.6 - Examples of Expenditure that is Recognised as an Expense

- ✓ Expenditure on start-up activities (start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with FGAAS 17 "Property, Plant and Equipment". Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal federal entity, expenditure to operate a new federal entity or operation (pre-operation costs) or expenditures for starting new operations or launching new products;
- ✓ Expenditure on training activities;
- ✓ Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets);
- ✓ Expenditure on relocating or reorganising part or all of a federal entity.

58. Paragraph 56 does not preclude a federal entity from recognising a prepayment as an asset when payment for an asset is made in advance before the federal entity obtains a right to access said asset. Similarly, paragraph 56 does not preclude a federal entity from recognising a prepayment as an asset when payment for services is made in advance before the entity receives said services.

59. An expenditure that has previously been treated as an expense shall not be recognised as part of the cost of an intangible asset.

Subsequent Measurement - Cost Model



60. A federal entity shall adopt the cost model for subsequent measurement of intangible assets.

61. A class of intangible assets is a group of assets with similar nature and use in a federal entity's operations. An intangible asset shall be carried at cost less any accumulated amortisation and accumulated impairment.

Useful Life



62. A federal entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of that useful life. A federal entity shall regard an intangible asset as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or provide service potential to the federal entity.

63. The accounting for an intangible asset shall be based on its useful life. An intangible asset with a finite useful life shall be amortised (see paragraphs 71-78), whereas an intangible asset with an indefinite useful life is not (see paragraphs 79-82).



64. When determining the useful life of an intangible asset, a federal entity shall consider several factors; including:
- A. The expected usage of the asset by the federal entity and whether the asset could be managed efficiently by another management team;
 - B. Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
 - C. Technical, technological, commercial or other types of obsolescence;
 - D. The stability of the industry in which the asset operates and changes in community's demand for the products or services derived from the asset;
 - E. Expected actions of competitors or potential competitors;
 - F. The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset, and federal entity's ability and intention to reach such a level;
 - G. The period of control over the asset and legal or similar constraints on the use of the asset, such as the expiry dates of related leases;
 - H. Whether the useful life of the asset is dependent on the useful lives of other assets of the federal entity.
65. The term "indefinite" does not mean "infinite." The useful life of an intangible asset reflects only that level of future maintenance expenditure required to maintain the asset at its standard of performance assessed at the time of estimating the asset's useful life, and the federal entity's ability and intention to reach such a level. A federal entity's conclusion that the useful life of an intangible asset is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at the same standard of performance.
66. Given the rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, their useful lives are likely to be short. The useful life of an intangible asset may be very long or even indefinite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.
67. The useful life of an intangible asset that arises from binding arrangements under contracts or other legal rights shall not exceed the period of said binding arrangement under contracts or other legal rights, but may be shorter depending on the period over which the federal entity expects to use the asset. If the binding arrangements from contracts or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the federal entity without cost.
68. The useful life of:

- A. A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or
- B. A reacquired right recognized as an intangible asset in an acquisition

The useful life is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and shall not include renewal periods.

69. There may be other economic, political, social and legal factors influencing the useful life of an intangible asset. Economic, political and social factors determine the period over which a federal entity will receive future economic benefits or service potential. Legal factors may restrict the period over which the federal entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by said factors.
70. The existence of the following factors, among others, indicates that a federal entity would be able to renew the binding arrangements from contracts or other legal rights without cost:
- A. There is evidence, possibly based on experience, that the binding arrangements from contracts or other legal rights will be renewed. If renewal is contingent upon the consent of a third party, this shall include evidence that the third party will give its consent;
 - B. There is evidence that any conditions necessary to obtain renewal will be satisfied;
 - C. The cost to the federal entity of renewal is immaterial when compared to the future economic benefits or service potential expected to flow to the federal entity from renewal.

If the cost of renewal is high when compared to the future economic benefits or service potential expected to flow to the federal entity from renewal, the "renewal" cost shall, in substance, represent the cost to purchase a new intangible asset at the renewal date.

Intangible Assets with Finite Useful Lives

Amortisation Period and Method



71. The depreciable amount of an intangible asset with a finite useful life shall be allocated on a straight line basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FGAAS 44 and the date that the asset is derecognized. The amortisation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the federal entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in the statement of financial performance, unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

72. Amortisation is usually recognised in the statement of financial performance. However, the future economic benefits or service potential embodied in an asset are sometimes absorbed by a federal entity in producing other assets. In such case, the amortisation amount shall constitute part of the cost of the other asset and is included in its carrying amount. For example, the amortisation amount of intangible assets used in a production process is included in the carrying amount of inventory (see FGAAS 12 “Inventory”).

Residual Value at the End of Useful Life (Residual Value)



73. A federal entity shall assume the residual value of an intangible asset at the end of its useful life to be zero, unless:

A. There is a commitment by a third party to purchase the asset at the end of its useful life; or

B. There is an active market for the asset, and:

- ✓ Residual value can be determined by reference to that market;
- ✓ It is probable that such a market will exist at the end of the asset’s useful life.



74. A federal entity shall determine the depreciable amount of an intangible asset with a finite useful life after deducting its residual value. A residual value other than zero implies that a federal entity expects the intangible asset to be disposed of before the end of its economic life.
75. An estimate of an asset’s residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset’s residual value (if any) is accounted for as a change in an accounting estimate in accordance with FGAAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors”.
76. The residual value of an intangible asset may increase to an amount equal to or greater than the asset’s carrying amount. If it does, the asset’s amortisation charge shall be zero until its residual value subsequently decreases to an amount below the asset’s carrying amount.



Example 31.7 - Amortisation of Intangible Assets with Finite Useful Lives

On January 1, 2015, a federal entity purchased a new accounting software from a third party for AED 450,000. The useful life of the software was estimated to be 10 years and its residual value at the end of its useful life AED 50,000. In addition, the federal entity used the straight line method in accounting for amortisation for the period.

Accordingly, when preparing the final accounts on December 31, 2015, the carrying amount of amortisation shall be tracked as follows:

Description	Debit	Credit
Amortisation Expense - Accounting Software *	40,000	
Accumulated Amortisation - Accounting Software		40,000

*Calculated as follows: $\frac{450,000 - 50,000}{10}$ representing: (Software cost - residual value) / useful life

Review of Amortisation Period



77. A federal entity shall review the amortisation period for intangible assets with a finite useful lives at least at each reporting date. If the remaining useful life of the asset is significantly different from previous estimates, the amortisation period shall be changed accordingly. Such changes shall be accounted for as changes in accounting estimates in accordance with FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors".
78. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.



Example 31.8 - Amortisation of Intangible Assets with Finite Useful Lives

On January 1, 2011, a federal entity acquired a patented agricultural formula for the value of AED 500,000, the useful life of which was estimated to be 20 years and its residual value at the end of its useful life zero. In addition, the federal entity used the straight line method in accounting for amortisation for the period.

At the end of the fiscal year on December 31, 2014, new information became available and made the federal entity reconsider its initial estimate of the amortisation period. To encourage domestic agriculture, the federal entity extended the validity of the patent to 25 years (as of the date of acquisition).

Accordingly, when preparing the final accounts on December 31, 2015, the carrying amount of amortisation shall be tracked as follows:

Description	Debit	Credit
Amortisation Expense - Patent *	19,048	
Accumulated Amortisation - Patent		19,048

* Calculated as follows:

- Accumulated amortisation on December 31, 2014: $(500,000/20) \times 4 = 100,000$
- Carrying amount on January 1, 2015: $(500,000 - 100,000) = 400,000$
- Amortisation for the period from January 1, 2015 to December 31, 2015: $(400,000/21) \times 1 = 19,048$
- With the remaining period of patent validity on December 31, 2015 being 21 years.

Intangible Assets with Indefinite Useful Lives



79. A federal entity shall not amortise intangible assets with indefinite useful lives.



80. A federal entity shall test intangible assets with indefinite useful lives for impairment by comparing their recoverable service amounts or their recoverable amounts, as appropriate, with their carrying amounts; in accordance with FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets". Accordingly, a federal entity shall test said assets for impairment:

- A. Annually;
- B. When there is an indication that the intangible asset may be impaired.

Review of Useful Life Assessment



81. The useful life of an intangible asset that is not being amortised shall be reviewed each reporting period to determine whether events and circumstances will continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors".

82. A federal entity shall measure intangible assets in accordance with the cost model, as reassessing the useful life of an intangible asset as finite rather than indefinite shall be regarded as an indicator that the asset may be impaired in accordance with FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating assets". As a result, the federal entity tests the asset for impairment by comparing its recoverable service amount or its recoverable amount, determined in accordance with FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating assets"; as appropriate, with its carrying amount, and recognising any excess of the carrying amount over the recoverable service amount or recoverable amount, as appropriate, as an impairment loss.

Recoverability of the Carrying Amount - Impairment Losses



83. To determine whether an intangible asset measured under the cost model is impaired, a federal entity shall apply either FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets", as appropriate. Those Standards explain when and how a federal entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset and when it recognises or reverses an impairment loss.

Intangible Heritage Assets



84. This Standard does not require a federal entity to recognise intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If a federal entity does recognise intangible heritage assets, it must apply the disclosure



requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

85. Some intangible assets are described as intangible heritage assets because of their cultural, environmental and historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or coins. Intangible heritage assets display certain characteristics, including the following (although these characteristics are not exclusive to such assets):
- A. Their historical, cultural and environmental value is unlikely to be fully reflected in their financial value based purely on a market price;
 - B. Legal and/or legislative obligations may impose prohibitions or severe restrictions on disposal of said assets by sale;
 - C. Their value may increase over time;
 - D. It may be difficult to estimate their useful lives, which in some cases could be several hundred years.
86. Federal entities may have large holdings of intangible heritage assets that have been acquired over the years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows. Furthermore, there may be legal or social obstacles to using them for such purposes.
87. Some intangible heritage assets may have future economic benefits or service potential other than their heritage value; such as royalty paid to a federal entity for use of a historical recording; in which case, intangible heritage assets may be recognised and measured on the same basis as other items of intangible cash-generating assets. For other intangible heritage assets, their future economic benefits or service potential are limited to their heritage characteristics. Future economic benefits or service potential can affect the choice of measurement base.
88. The disclosure requirements prescribed in paragraphs 96 - 100 require federal entities to disclose recognised intangible assets. Therefore, federal entities that recognise intangible heritage assets are required to disclose certain matters in respect of those assets such as:
- A. The measurement basis used;
 - B. The depreciation method used - Straight line;
 - C. The gross carrying amount;
 - D. The accumulated amortisation at the end of the period, if any;
 - E. A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Derecognition



89. A federal entity shall derecognise an intangible asset:

- A. When it is disposed of (including disposal through a non-exchange transaction); or
- B. When no future economic benefits or service potential are expected from its use or disposal.



90. Gains or losses arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. Said gains or losses shall be recognised in the statement of financial performance (unless FGAAS 43 "Leases" requires otherwise on a sale and leaseback).
91. An intangible asset may be disposed of in a variety of ways (for example, by sale, by entering into a lease or through a non-exchange transaction). When determining the date of disposal of an asset, a federal entity shall apply the criteria prescribed in FGAAS 23 "Revenue from Non-exchange Transactions" for recognising revenue from the sale of goods. FGAAS 43 "Leases" shall apply to disposal by sale and leaseback.
92. If, under the recognition principle in paragraph 18, a federal entity recognises in the carrying amount of an intangible asset the cost of replacement of any part of the asset, then it shall derecognise the carrying amount of the replaced part. If it is not practicable for the federal entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was purchased or internally generated.
93. In the case of:
 - A. A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or
 - B. A reacquired right recognized as an intangible asset in an acquisition,
 If the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.
94. The consideration receivable on disposal of an intangible asset shall be recognised at its fair value. If payment for the intangible asset is deferred, the consideration received is recognised initially at the cash price returned. The difference between the nominal amount of the consideration and the cash price returned shall be recognised as interest revenue in accordance with FGAAS 9 "Revenue from Exchange Transactions" reflecting the actual yield on the receivable amount.
95. Amortisation of an intangible asset with a finite useful life shall not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FGAAS 44.



Example 31.9 - Derecognition through Sale

At the beginning of the current year, a federal entity sold an internally developed accounting software (such that all rights are transferred to a third party and the federal entity no longer has the ability to use the software or sell it to other parties) with a carrying amount of AED 50,000 (AED 300,000 in costs less AED 250,000 in accumulated amortisation) for the sum of AED 60,000 to a third party. Once the software is handed over and risks, future benefits and ownership are transferred to the buyer, the federal entity shall make the following entries:

Description	Debit	Credit
Cash - Bank Account	60,000	
Accumulated Amortisation	250,000	
Intangible Asset - Accounting Software		300,000
Profit from Sale		10,000

**Example 31.10 - Derecognition through Disposal**

At the beginning of the current year, a federal entity disposed of an accounting software with a carrying amount of AED 50,000 (AED 300,000 in costs less AED 250,000 in accumulated amortisation) because it was no longer compatible with new computers. Accordingly, the federal entity shall make the following entries:

Description	Debit	Credit
Accumulated Amortisation	250,000	
Loss from disposal	50,000	
Intangible Asset - Accounting software		300,000

Disclosures

96. A federal entity shall disclose the following in its financial statements for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

- A. Whether useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
- B. The amortisation methods used for intangible assets with finite useful lives;
- C. The gross carrying amount and accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

- D. The item(s) of the statement of financial performance in which any amortisation of intangible assets is included;
- E. A reconciliation of the carrying amount at the beginning and end of the period showing:
 - ✓ Additions, indicating separately those arising from internal development and those purchased separately;
 - ✓ Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FGAAS 44 and other disposals;
 - ✓ Increases or decreases during the period resulting from revaluation (if any);
 - ✓ Impairment losses recognised in the statement of financial performance during the period in accordance with FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets" (if any);
 - ✓ Impairment losses reversed in the statement of financial performance during the period in accordance with FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets" (if any);
 - ✓ Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity;
 - ✓ Any amortisation recognised during the period;
 - ✓ Other changes in the carrying amount during the period.



97. A federal entity shall disclose groups of assets of similar nature and use in its operations. Examples of separate classes may include:

- A. Brand names;
- B. Mastheads and publishing titles;
- C. Computer software;
- D. Licenses
- E. Copyrights, patents and other industrial property rights and service and operating rights;
- F. Recipes, formulae, drawings and prototypes; and
- G. Intangible assets under development.



98. FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" requires disclosure of the nature and effect of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

- A. The assessment of intangible assets' useful lives;
- B. The amortisation method; or
- C. The residual value.



99. A federal entity shall disclose:

- A. For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the federal entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life of the asset and the factor(s) that played a significant role in determining the useful life of the asset.
- B. A description of the carrying amount and remaining amortisation period of any individual intangible asset that is material to the federal entity's financial statements.
- C. For intangible assets acquired through a non-exchange transaction and initially recognised at fair value (see paragraphs 34-35):
 - ✓ The fair value initially recognised for said assets;
 - ✓ Their carrying amount.
- D. The existence and carrying amounts of intangible assets with restricted title and the carrying amounts of intangible assets pledged as security for liabilities.
- E. The amount of contractual commitments for the acquisition of intangible assets.



100. When describing the factor(s) that played a significant role in determining the useful life of an intangible asset, a federal entity shall consider the list of factors in paragraph 64.

Research and Development Expenditure

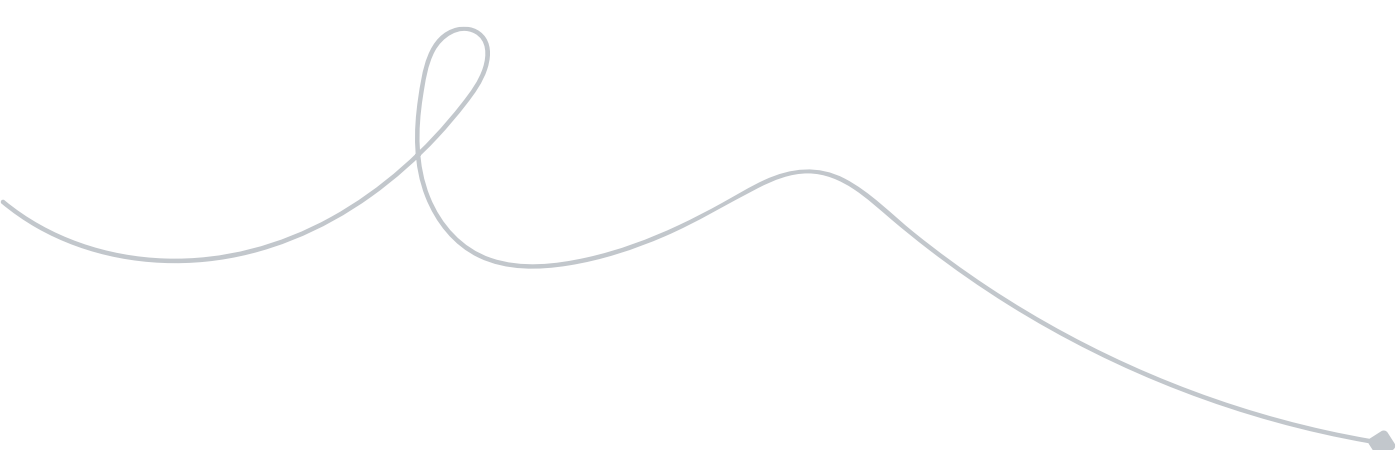


101. A federal shall disclose the total amount of research and development expenditure recognised as an expense during the period.

Other Information

102. A federal entity is encouraged, but not required, to disclose the following information:

- A. Fully amortised intangible assets that are still in use;
- B. Significant intangible assets controlled by the federal entity but not recognised as assets because they did not meet the recognition criteria in this Standard.



Standard 27 - Agriculture

Standard 27 - Agriculture

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 27 (IPSAS 27) which provides for recognition, measurement bases, presentation and disclosure of biological assets. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

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Objective

1. The objective of this Standard is to define biological assets and agricultural produce and prescribe the requirements for recognition and measurement of transactions relating to agricultural activity and bases for presentation and disclosure of related information in federal entities' financial statements.
2. This Standard addresses the following topics relating to agricultural activity:
 - A. The bases for recognition of biological assets and agricultural produce resulting from agricultural activity;
 - B. The bases for measurement of biological assets or agricultural produce;
 - C. Gains and losses arising on initial recognition of biological assets and agricultural produce, and treatment of the gains and losses;
 - D. Key information to be disclosed in financial statements.

Scope



3. This Standard applies to federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto.
4. This Standard applies to all federal entities involved in agricultural activity that prepare and present their financial statements based on Federal Government Accrual Accounting Standards, and covers:
 - A. Biological assets; and
 - B. Agricultural produce at the point of harvest.
5. This Standard does not apply to lands, intangible assets and right-of-use assets arising from a lease of land related to agricultural activity, which are treated in accordance with other standards (e. g. FGAAS 17 "Property, Plant and Equipment", FGAAS 16 "Investment Property", FGAAS 31 "Intangible Assets" and FGAAS 43 "Leases").

This Standard does not apply to bearer plants of an agricultural activity (17 "Property, Plant and Equipment"), but applies to the production of these bearing plants.

6. This Standard does not apply to biological assets held for the provision or supply of services. Biological assets may be used in many activities undertaken by federal entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in this Standard, those biological assets are not accounted for in accordance with this Standard (e. g. Horses used for transportation or dogs used for policing purposes). Where those biological assets meet the definition of an asset, other Standards should be considered in determining the appropriate accounting (e.g. FGAAS 12 "Inventory" and FGAAS 17 "Property, Plant and Equipment").
7. The following are not bearer plants:

- A. Plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
- B. Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated for their fruit and their lumber); and
- C. Annual crops (for example, maize and wheat).

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant. Produce growing on bearer plants is a biological asset.

8. Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, cropping, cultivating orchards and plantations and aquaculture. Certain common features exist within this diversity:
 - A. **Capability to change:** Living animals and plants are capable of biological transformation;
 - B. **Management of change:** Management enhances or stabilizes conditions necessary for the transformation to take place (for example, nutrient levels, humidity and temperature). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing) is not considered agricultural activity;
 - C. **Measurement of change:** The change in quality (for example, density, ripeness, and protein content) or quantity (for example, weight and fiber tissue) resulting from biological transformation is measured and monitored as a routine management function.



9. Biological transformation results in the following types of outcomes:

- A. Asset changes, through:
 - ✓ Growth (an increase in quantity or improvement in quality of an animal or plant);
 - ✓ Degeneration (a decrease in the quantity or deterioration in quality of an animal or plant);
 - ✓ Procreation (creation of additional living animals or plants);
- B. Production of agricultural produce such as milk and dates.



Example 27.1 - Biological Transformation

The following are examples of biological transformations related to livestock:

- ✓ Calves turning into cows (growth);
- ✓ Cows producing milk (production);
- ✓ Livestock slaughtered for meat (production);

Example 27.1 - Biological Transformation

- ✓ Camels giving birth (procreation);
- ✓ Loss of a group of diseased cows (degeneration).

10. This Standard applies to agricultural produce, which is the harvested product of federal entities' biological assets, only at the point of harvest; after which, FGAAS 12 "Inventory" shall apply. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of oranges into orange juice. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.

Example 27.2 - Scope of this Standard: Biological Assets, then Agricultural Produce, then Agricultural Products

A federal entity harvests sugar cane and transforms it into sugar. While this transformation or processing from harvested cane to sugar may seem a logical and natural extension of agricultural activity, processing does not fall within the scope of biological transformation. Therefore, processing sugar after harvesting sugar cane is not included in the definition of agricultural activity in this Standard.

The following table provides examples of biological assets, agricultural produce and agricultural products that are the result of processing after harvest:

Within the Scope of this Standard	Within the Scope of this Standard	Beyond the Scope of this Standard
Biological Assets	Agricultural Produce	Products that are the Result of Processing after Harvest
Sheep	Wool	Yarn, carpet
Trees	Felled trees	Logs
Plants	Cotton	Threads, clothing
	Harvested cane	Sugar
Cattle	Milk	Cheese
Sheep	Carcasses	Processed meat, sausages
Bushes	Leaves	Tea, processed tobacco
Fruit trees	Picked fruit	Processed fruit

Recognition



11. A federal entity shall recognize a biological asset or agricultural produce when:
- The federal entity controls the asset as a result of past events (for example, legal ownership or branding or marking of the cattle on acquisition or birth);
 - It is probable that future economic benefits or service potential associated with the asset will flow to the federal entity;
 - The fair value or cost of the asset can be measured reliably (the fair value of an asset is based on its present location and condition). For example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle either to that market or to the location where it will be distributed at no charge or for a nominal charge).



Example 27.3 - Recognition of a Biological Asset

A federal entity has a pregnant camel used for agricultural activity and is considered a biological asset in accordance with the definition of a biological asset in this Standard. Its calf “newborn” will also be considered a biological asset, but will not be recognized as a separate asset until the above stated recognition criteria are satisfied. Since control is evident and the fair value of the asset can be measured reliably through the relevant market, it would be normal to only need to determine when the future economic benefits associated with the asset will flow to the federal entity. Therefore, biological assets are recognized when successful birth and health of the newborn are established.

Measurement



12. A federal entity shall measure a biological asset on initial recognition and at reporting dates at its fair value less costs to sell, so long as its fair value can be measured reliably. Where fair value cannot be measured reliably, measurement shall be carried out in accordance with paragraph 30 of this Standard.



Example 27.4 - Measurement of a Biological Asset on Initial Recognition

A federal entity owns a farm, the activities of which include cattle breeding for sale. When the federal entity commenced its activity on December 31, 2011, it owned 100 immature calves and 50 mature cows, noting that cows need one year to become mature. Below is general information about the fair value of both mature and immature cattle, together with costs to sell:

Example 27.4 - Measurement of a Biological Asset on Initial Recognition

	AED			
	2011	2012	2013	2014
Fair value per unit (immature)	100	105	110	116
Fair value per unit (mature)	150	153	156	159
Costs to sell:				
(a) Auction costs per unit (5%)	5.00	5.25	5.50	5.80
(b) Transport cost (Total cost per unit)	0.3	0.32	0.34	0.36

Measurement

The federal entity measures the biological asset on initial recognition and at reporting dates at its fair value less costs to sell. Fair value less costs to sell includes fair value of auction costs and transport costs (obtained from an active market).

On December 31, 2011, assuming that the federal entity has 100 immature calves (as indicated in the table below), fair value less costs to sell was calculated as follows:

Fair value less costs to sell: $100 \times (100 - 5.00 - 0.3) = \text{AED } 9,470$

Activity and fair value of immature cattle for the years under analysis are as follows:

	2011	2012	2013	2014
Immature cattle				
Opening balance:	-	100	115	115
Addition: Acquisition	100	105	105	115
Addition: Birth	-	10	10	20
(Less): Transferred to mature cattle	-	(100)	(115)	(115)
Ending balance of immature cattle count - A	100	115	115	135
Fair value less costs to sell (per unit) "AED" - B	94	99	104	109
Fair value less costs to sell (Total) "AED" - A x B	9,470	11,434	11,978	14,828

Example 27.4 - Measurement of a Biological Asset on Initial Recognition

During the same period, activity and fair value of mature cattle is as follows:

	2011	2012	2013	2014
Mature cattle				
Opening balance of mature cattle count	-	50	100	115
Addition: Acquisition	50	-	-	-
Addition: Transferred from immature cattle	-	100	115	115
(Less): Sales	-	(50)	(100)	(115)
Ending balance - A	50	100	115	115
Fair value less costs to sell (per unit) - B	144	147	150	152
Fair value less costs to sell (Total) - A x B	7,235	14,743	17,268	17,576

13. Where a federal entity acquires a biological asset through a non-exchange transaction, the biological asset shall be measured at fair value less costs to sell on initial recognition and at each reporting date in accordance with paragraph 12.
14. If an active market exists for a biological asset (or agricultural produce) in its present location and condition, the quoted price in that market shall be the appropriate basis for determining the fair value of that asset. If a federal entity has access to different active markets, the federal entity shall use the most relevant one.

Example 27.5 - Determination of the Fair Value of an Asset (Determination of the Most Relevant Market)

A federal entity grows and harvests palm trees. The entity sells harvested dates to a dates factory in the same city as the federal entity. Assuming that there are two other factories in other UAE cities which may pay higher prices for dates but getting the dates to said factories is uneconomical.

In this case, the federal entity uses the local market price as the fair value, because getting the dates to the other factories is uneconomical; even if the prices they offer are higher.

15. The present location and condition of an asset are considered when determining its fair value. Therefore, transport costs affect the measurement of fair value. For example, the fair value of cattle at a farm is the price for cattle in the most relevant market less transport and other costs of getting the cattle to that market.



Example 27.6 - Determination of the Fair Value of an Asset (The Effect of Transport Costs)

In May 2014, a federal entity purchased cattle for the value of AED 100,000 in an auction. The cost of getting the cattle to the entity's farm was AED 1,000. The entity will have to incur similar transport cost if it was to sell the cattle in auction, in addition to auction fees of 2% of sale price. Therefore, the fair value of the cattle less costs to sell is AED 97,000 (100,000 - 1,000 - 2,000).

At the reporting date, the fair value of the cattle increased (taking into consideration its location and condition) to AED 110,000 (i.e. AED 110,000 is the market price net of the cost of getting the cattle to the market). Therefore, the cattle should be measured in the federal entity's financial statements at AED 107,800 (AED 110,000 less auction fees of AED 2,200 at 2% of sale price). The estimated cost of getting the cattle to the auction are not deducted because transport costs were considered in determining the fair value.



16. If an active market does not exist, a federal entity shall use one or more of the following, when available, in determining fair value:

- A. The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;
- B. Market prices for similar assets with adjustment to reflect differences;
- C. Sector benchmarks (such as the value of cattle expressed per kilogram of meat).

17. In some cases, the information sources listed in paragraph 16 may suggest different conclusions as to the fair value of a biological asset or agricultural produce. In such cases, a federal entity shall consider the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.

18. In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, a federal entity shall use the fair value of expected net cash flows from the asset. The objective of a calculation of the fair value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. A federal entity shall consider this in determining an appropriate discount rate based on the present market-determined price to be used in estimating expected net cash flows.

19. The current value of expected net cash flows shall be determined by including the net cash flows that market participants would expect the asset to generate in its most relevant market. Asset financing, taxation, or re-establishing biological assets after harvest shall not be included in cash flows.



Example 27.7 - Determination of the Fair Value of a Biological Asset in the Absence of Market-determined Prices or Values

On December 31, 2013, a farm owned by a federal entity contained 100 trees planted 10 years ago. Those trees need 30 years to become ripe and will be used to manufacture houses and furniture. The appropriate annual discount rate was determined to be 6%.

Fair value based on active market prices is only available for ripe trees.

The fair value of a ripe tree of the same type in farms is:

- ✓ As on December 31, 2013: AED 171
- ✓ As on December 31, 2014: AED 165

Based on these prices, the fair value of the trees is:

- ✓ As on December 31, 2013, ripe trees are valued at AED 17,100 (171 x 100)
- ✓ As on December 31, 2014, ripe trees are valued at AED 16,500 (165 x 100)

Assuming that cash flows from said date to the point of harvest will be immaterial, and that the current fair value of a ripe tree will not be significantly different from its fair value at the point of harvest, the fair value (and consequently, the value presented as an asset in the statement of financial position) of unripe trees in the farm is estimated as follows:

- ✓ As on December 31, 2013: $\left(\frac{17100}{1.06^{20}}\right) = \text{AED } 5,332$
- ✓ As on December 31, 2014: $\left(\frac{16500}{1.06^{19}}\right) = \text{AED } 5,453$



20. Agricultural produce harvested from a federal entity's biological asset shall be measured at its fair value less costs to sell at the point of harvest.
21. The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or type. A federal entity shall select the attributes corresponding to the attributes used in the market as a basis for pricing.
22. A federal entity may enter contracts to sell its biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in determining fair value, because fair value reflects the current market in which a willing buyer and seller would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. In some cases, those contracts may be loss making contracts in accordance with FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" which applies to loss making contracts.
23. When a federal entity uses biological assets for distribution at no charge or for nominal charge, the fair values of such biological assets shall be measured at replacement cost which is defined as the cost the federal entity would incur to acquire the asset at the reporting date.
24. When agreeing bona fide transaction price between independent parties, knowledgeable and willing buyers and sellers shall consider variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, a federal entity shall incorporate expectations about possible variations in cash flows into either the expected cash flows or the

discount rate, or a combination of the two. In determining a discount rate, the federal entity shall use assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.

25. Cost may sometimes approximate fair value; particularly when:
- A. Little biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to the reporting date);
 - B. The impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).
26. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land, but an active market may exist for the combined assets, that is, for the biological assets, raw land and land improvements, as a package. A federal entity may use information regarding the combined assets to determine fair value for the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.

Gains and Losses



27. A federal entity shall include gain or loss arising on initial recognition of a biological asset (at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset) in surplus or deficit for the period in which it arises (statement of financial performance).
28. A loss may arise on initial recognition of a biological asset, because estimated costs to sell are deducted in determining fair value (less costs to sell) of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born.



Example 27.8 - Gain or Loss on Initial Recognition of a Biological Asset

In May 2014, a federal entity purchased cattle for the value of AED 100,000 in an auction. The cost of getting the cattle to the entity's farm was AED 1,000. The entity will have to incur similar transport cost if it was to sell the cattle in auction, in addition to auction fees of 2% of sale price. Therefore, the fair value of the cattle less costs to sell is AED 97,000 (100,000 - 1,000 - 2,000). Cash outflow on initial recognition will result in a loss of AED 4,000 (AED 101,000 - AED 97,000).



29. Gain or loss arising on initial recognition of agricultural produce shall be included at fair value (less costs to sell) in the statement of financial performance for the period in which it arises. Gain or loss may also arise on initial recognition of agricultural produce as a result of harvesting.



Example 27.9 - Gain or Loss on Recognition of Agricultural Produce as a result of Harvesting

With reference to Example 7 above, the difference in fair value of unripe trees between the years 2013 and 2014 is AED 121 (5,453 - 5,332). This gain is based on two factors:

- ✓ The impact of change in market prices;
- ✓ Physical change (ripeness) of trees in the farm.

The total gain is analyzed as follows:

- ✓ **Change in price**, which represents the condition of the biological asset at the previous reporting date: The value of the biological asset at prevailing prices at the end of the current year less the value of the biological asset at prevailing prices at the end of the previous period:

Loss:

$$((16500^*) / [1.06]^{20}) - ((17100^*) / [1.06]^{20}) = 5,145 - 5,332 = \text{AED } (187)$$

- ✓ **Physical change of the biological asset**, which represents current prices: The value of the biological assets in its present condition at the end of the current year less the value of the biological asset in its condition at the end of the previous year:

Gain:

$$(16500 / [1.06]^{19^{**}}) - (16500 / [1.06]^{20^{**}}) = 5,453 - 5,145 = \text{AED } 308$$

Total gain is AED 121 (308 - 187) and will be recognized as a gain in the statement of financial performance (regardless of whether this gain is realized).

*The difference in prices between 2013 and 2014 results in gain or loss.

** Ripening or change in the condition of a biological asset (trees become ripe in one year) results in gain or loss.

Inability to Measure Fair Value Reliably



30. A federal entity shall measure the fair value of a biological asset reliably. However, in some cases, market-determined prices or values may not be available for an asset at initial recognition, and alternative estimates of its fair value cannot be relied on because they are determined to be clearly unreliable. Accordingly, that biological asset shall be measured at its cost less any accumulated depreciation or accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, the federal entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations, it is presumed that fair value can be measured reliably.
31. Although reliable measurement of fair value may not be available at initial recognition, it may become available later (for example, if an active market is opened). In such circumstances, biological assets shall be measured at fair value less costs to sell from the point at which accurate measurement of fair value becomes available. In all cases, it is not allowed for a federal entity that has measured biological assets at fair value less costs to sell to return to

another measurement model such as the cost model, as it should continue to measure the biological asset at fair value less costs to sell until the asset is disposed of.

32. When determining cost, accumulated depreciation and accumulated impairment loss, a federal entity shall consider FGAAS 12 "Inventory", FGAAS 17 "Property, Plant and Equipment", FGAAS 26 "Impairment of Cash-generating Assets" and FGAAS 21 "Impairment of Non-cash Generating Assets".



Example 27.10 - Discontinuity of, or Change in, the availability of information to measure Fair Value

A federal entity breeds cattle (biological assets) and recognizes it at its fair value less cost to sell which is based on the price set in local cattle markets. A series of natural events affected cattle prices, making them very volatile. Therefore, the federal entity regards the price in said markets as reflecting abnormal conditions and is, therefore, unreliable, and wishes to adopt a cost recognition method for the current period.

Question: *Can the federal entity return to the cost model for biological assets that were previously measured at fair value less costs to sell when fair value cannot be measured accurately?*

Answer: The federal entity cannot return to the cost method. The federal entity has adopted the model of fair value less costs to sell as a basis for measurement at initial recognition and, therefore, must continue to apply the fair value model. However, the federal entity can provide additional disclosures in financial statements about price volatility with respect to changes in value.

33. In all cases, federal entities shall measure agricultural produce at the point of harvest at its fair value less costs to sell as such fair value can be measured reliably.

Disclosures

General



34. A federal entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.
35. Consumable biological assets are those that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge as biological assets. Examples of consumable biological assets are animals and plants for one-time use, livestock intended to produce meat, livestock held for sale, fish in farms, crops such as maize and wheat and trees being grown for lumber. Bearer biological assets are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity. Bearer biological assets are not agricultural produce but, rather, are self-regenerating. Examples of types of animals that are bearer biological assets include breeding stocks (including fish and poultry), livestock from which milk is produced and sheep or other animals used for wool

production. Examples of types of trees that are bearer biological assets include, but are not limited to, fruit trees such as palm trees and other types of plants that are considered bearer biological assets.

36. A federal entity shall provide a quantified description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge. A narrative description of the biological assets may be provided together with the quantified description.
37. A federal entity is also encouraged to distinguish between mature and immature biological assets, as appropriate. These distinctions provide information that may be helpful in assessing the timing of future cash flows and services potential. An entity discloses the basis for making any such distinctions.
38. If not disclosed in the information published with financial statements, entities shall explain the following:
 - A. The nature of its activities involving each group of biological assets;
 - B. Non-financial measurements or estimates of the physical quantities of:
 - ✓ Each group of a federal entity's biological assets at the end of the period;
 - ✓ The output of agricultural produce for the period.
39. The methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets shall also be disclosed.
40. A federal entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.

41. A federal entity shall disclose:
 - A. The existence and carrying amounts of biological assets with restricted title, and the carrying amounts of biological assets pledged as security for liabilities;
 - B. The nature and extent of restrictions on the entity's use or capacity to sell the biological assets;
 - C. The amount of commitments for the development or acquisition of biological assets;
 - D. Financial risk management strategies related to agricultural activity.

42. In addition, a federal entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:
 - A. Separate disclosure of gain or loss arising from changes in fair value less costs to sell, for each bearer biological assets and consumable biological assets;
 - B. Increases due to purchases;
 - C. Increases due to assets acquired through a non-exchange transaction;

- D. Decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FGAAS 44;
 - E. Decreases due to distributions at no charge or for a nominal charge;
 - F. Increases resulting from business combinations;
 - G. Net exchange differences arising from the translation of financial statements into a different presentation currency, and net exchange differences arising from the translation of foreign operations presented in a currency other than the presentation currency of the federal entity (i.e. AED);
 - H. Decreases due to harvest;
 - I. Other changes.
43. The fair value of a biological asset can change due to both physical changes and price changes in the market. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. In such cases, a federal entity is encouraged to disclose the amount of change in fair value included in the statement of financial performance due to physical changes and due to price changes; by group or otherwise. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).
44. Biological transformation results in a number of types of physical change such as growth, degeneration, production and procreation, each of which is measurable and observable. Each of those physical changes is directly related to future economic benefits and service potential. A change in fair value of a biological asset due to harvesting is also a physical change.
45. Where agricultural activity is exposed to climate, disease and other natural risks, and if an event occurs that, due to its magnitude; nature or frequency, has a material impact on the relevant federal entity's revenue and expense, said federal entity shall disclose the nature and amount of said impact in accordance with FGAAS 1 "Presentation of Financial Statements".

Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably



46. If a federal entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, it shall disclose the following for such biological assets:
- A. A description of the biological assets;
 - B. An explanation of why fair value cannot be measured reliably;
 - C. The range of estimates within which fair value is expected to lie, if possible;
 - D. The depreciation method used;
 - E. The useful lives of assets or the depreciation rates used;

- F. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
47. If during the current period, a federal entity measures biological assets at their cost (less any accumulated depreciation and any accumulated impairment losses), it shall disclose any gain or loss recognized on disposal of such biological assets. It shall also disclose the reconciliation required by paragraph 42 showing the amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in the statement of financial performance related to those biological assets:
- A. Impairment losses;
 - B. Reversals of impairment losses;
 - C. Depreciation.
48. If the fair value of biological assets previously measured at their cost becomes reliably measurable during the current period, a federal entity shall disclose the following for those biological assets:
- A. A description of the biological assets;
 - B. An explanation of why fair value has become reliably measurable;
 - C. The impact of the change.



Standard 43 - Leases

Standard 43 - Leases

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 43 (IPSAS 43). It is worth mentioning that certain text of standard 43 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.
2. A federal entity shall consider the terms and conditions of contracts and all relevant facts and circumstances when applying this Standard. A federal entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

Scope



3. This Standard shall apply to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in its introduction. A federal entity shall apply this Standard to all leases, including leases of right-of-use assets in a sublease, except for:
 - A. Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
 - B. Leases of biological assets within the scope of Federal Government Accrual Accounting Standard 27 "Agriculture" held by a lessee;
 - C. Service concession arrangements within the scope of Federal Government Accrual Accounting Standard 32 "Service Concession Arrangements: Grantor", and
 - D. Rights held by a lessee under licensing agreements within the scope of Federal Government Accrual Accounting Standard 31 "Intangible Assets" for such items as motion picture films, videos recordings, plays, manuscripts, patents and copy rights.
4. The lessee applies this Standard to leases of intangible assets other than those described in paragraph 3(d).

Recognition Exemptions



5. A federal entity shall not apply the requirements in paragraphs 32-57 to:

- A. Short-term leases; and
- B. Leases for which the underlying asset is of low value.



6. When a federal entity apply the requirements in paragraphs 32-57 to either short-term leases or leases for which the underlying asset is of low value, the federal entity shall recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.



7. If a lessee accounts for short-term leases applying paragraph 6, the lessee shall consider the lease to be a new lease for the purposes of this Standard if:
- A. There is a lease modification; or
 - B. There is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term).
8. The election for short-term leases shall be made by class of underlying asset to which the right of use relates. A class of underlying asset is a grouping of underlying assets of a similar nature and use in a federal entity's operations.
9. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.
10. A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased. The underlying asset is not of low value if it has not been since it was new. For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.
11. Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.
12. The assessment of whether an underlying asset is of low value is performed on an absolute basis, regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach similar conclusions about whether a particular underlying asset is of low value.

13. An underlying asset can be of low value only if:

- A. The lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
- B. The underlying asset is not highly dependent on, or highly interrelated with, other assets



Example 43.1 - Leases of low-value assets

The Ministry of Economy has the following leases:

- A. leases of real estate (office buildings).
- B. leases of Ministry cars, of varying quality, specification, and value.
- C. leases of IT equipment for use by individual employees (such as laptop computers, desktop computers, handheld computer devices, desktop printers and mobile phones).
- D. leases of servers, including many individual modules that increase the storage capacity of those servers. The modules have been added to the mainframe servers over time as the Ministry has needed to increase the storage capacity of the servers.
- E. leases of office equipment:
 - ✓ office furniture (such as chairs, desks and office partitions);
 - ✓ water dispensers; and
 - ✓ high-capacity multifunction photocopier devices.

The Ministry determines that the following leases qualify (C, and E) as leases of low-value assets on the basis that the underlying assets, **when new, are individually of low value:**

C/ leases of IT equipment for use by individual employees; and

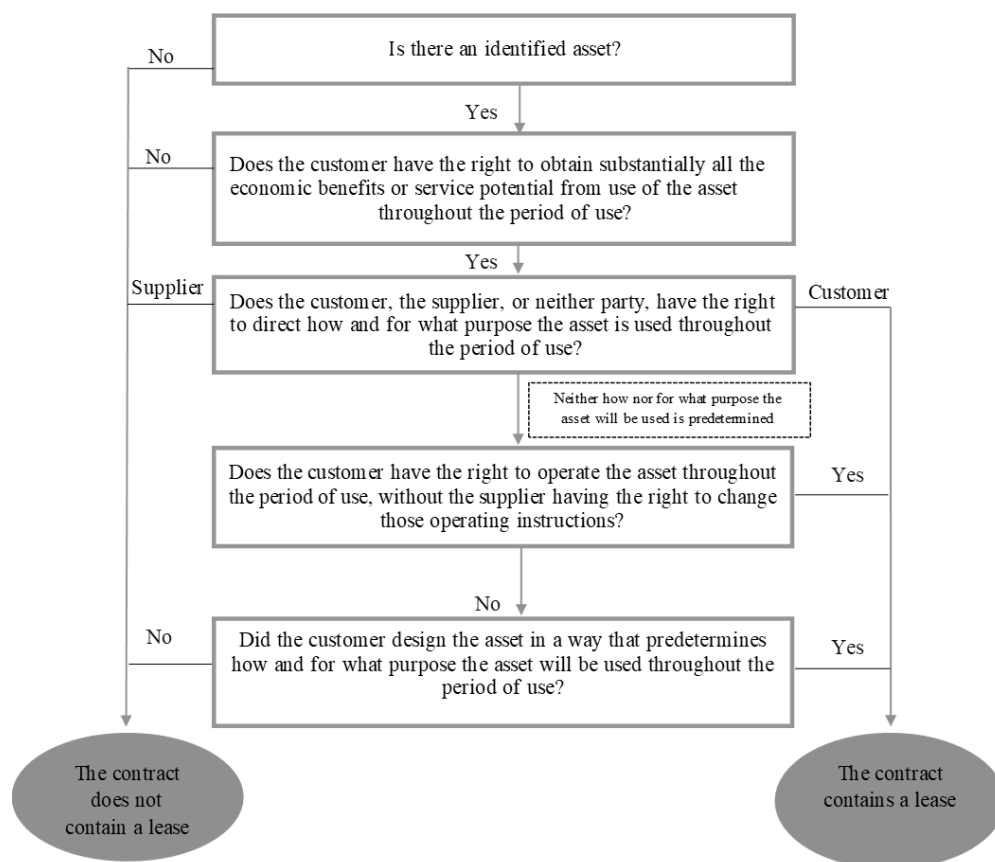
E/ leases of office furniture and water dispensers.

Although each module within the servers, if considered individually, might be an asset of low value, the leases of modules within the servers do not qualify as leases of low-value assets. This is because each module is highly interrelated with other parts of the servers. The Ministry would not lease the modules without also leasing the servers.

Identifying a Lease Contract



14. At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
15. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:
 - ✓ The right to obtain substantially all of the economic benefits or service potential from use of the identified asset; and
 - ✓ The right to direct the use of the identified asset.
16. If the federal entity has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.
17. A federal entity shall assess whether a contract contains a lease for each potential separate lease component.
18. The following flowchart may assist federal entities in making the assessment of whether a contract is, or contains, a lease:



19. An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Example 43.2 - Identifying a Lease - Allocated Space

A federal entity enters into a contract with Abu Dhabi International Airport to use a space in the airport to put awareness leaflets for a three-year period. The contract states the amount of space and that the space may be located at any one of several boarding areas within the airport. Airport management has the right to change the location of the space allocated to the federal entity at any time during the period of use. There are minimal costs to the airport management associated with changing the space. There are many areas in the airport that are available and that would meet the specifications for the space in the contract.

The contract does not contain a lease.

- A. Airport management has the practical ability to change the space used by the federal entity throughout the period of use without obtaining the federal entity's approval.
- B. Airport management would benefit economically from substituting the space, because substitution allows the management to make the most effective use of the space at boarding areas in the airport to meet changing circumstances.

Example 43.3 - Identifying a Lease - Truck Rental

A federal entity enters into a contract with a third party (private institution) for the use of a truck for one week to transport the federal entity's employees. The institution does not have substitution rights. Only employees specified in the contract are permitted to be transported on this truck for the period of the contract. The contract specifies a maximum distance that the truck can be driven. The federal entity is able to choose the details of the journey (speed, route, rest stops, etc.) within the parameters of the contract. The federal entity does not have the right to continue using the truck after the specified trip is complete, the timing and location of transporting the employees, are specified in the contract. The federal entity is responsible for driving the truck.

The contract contains a lease of a truck. The federal entity has the right to use the truck for the duration of the specified trip, there is an identified asset. The truck is explicitly specified in the contract, and the federal entity does not have the right to substitute the truck.

The federal entity has the right to control the use of the truck throughout the period of use because:

- ✓ The federal entity has the right to obtain substantially all the economic benefits or service potential from use of the truck over the period of use. The federal entity has exclusive use of the truck throughout the period of use.
- ✓ The federal entity has the right to direct the use of the truck within a purpose and specified timeframe predetermined in the contract. The federal entity makes all of the decisions about the use of the truck that can be made during the period of use.

Because the duration of the contract is one week, this lease meets the definition of a short-term lease.

Example 43.4 - Identifying a Lease - Office Rental

A federal entity enters into a contract with a third party (private institution) to rent office unit for a five-year period. The office unit is part of a larger office space with many office units. The federal entity is granted the right to use the office unit. The institution can require the entity to relocate to another office unit. In that case, the institution is required to provide the federal entity with an office unit of similar quality and specifications to the rented office unit, and to pay for the federal entity relocation costs. The institution would benefit economically from relocating the federal entity only if a major new tenant were to decide to occupy a large amount of office space at a rate sufficiently favorable to cover the costs of relocating the federal entity and other tenants in the office space. However, it is not likely that those circumstances will arise.

The contract requires the federal entity to use the office unit to operate during the hours that the larger office space is open. The federal entity makes all of the decisions about the use of the office unit during the period of use. For example, the federal entity decides on the mix of services provided from the unit, the pricing of the services provided and the number of employees working. The federal entity also controls physical access to the unit throughout the five-year period of use.

The contract requires the federal entity to make fixed payments to the institution, the institution provides cleaning and security services as part of the contract.

The contract contains a lease of office space due to the following reasons:

- ✓ The office unit is an identified asset, and explicitly specified in the contract; and
- ✓ Substitution right (relocation to another office unit) is not substantive because, at inception of the contract, those circumstances are not considered likely to arise.
- ✓ The federal entity has the right to control the use of the office unit throughout the five-year period of use through obtaining substantially all of the economic benefits and making all of the decisions about the use of the office unit during the period of use.

Separating Components of Contract

20. For a contract that is, or contains, a lease, a federal entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 23.

Lessee

21. For a contract that contains a lease component and one or more additional lease or non-lease components, a federal entity shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.
22. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge a federal entity for that component, or a similar component, separately. If an observable stand-alone price is not



readily available, the lessee shall estimate the stand-alone price, maximizing the use of observable information.

23. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria of Federal Government Accrual Accounting Standard 41 "Financial Instruments".
24. Unless the practical expedient in paragraph 23 is applied, a lessee shall account for non-lease components applying other applicable Standards.

Lessor



25. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying "performance obligations".

Lease Term



26. A federal entity shall determine the lease term as the non-cancellable period of a lease, together with both:

- A. Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- B. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

27. The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.



28. In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, a federal entity shall consider all relevant facts and circumstances that create an **economic incentive** for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Example 43.5 - Examples of Factors Considered to Identify Lease Term

Examples of factors to consider in identifying lease term include, but are not limited to:

- A. Contractual terms and conditions for the optional periods compared with market rates, such as:
 - ✓ The amount of payments for the lease in any optional period;
 - ✓ The amount of any variable payments for the lease or other contingent payments, such as payments resulting from termination penalties and residual value guarantees; and

Example 43.5 - Examples of Factors Considered to Identify Lease Term

- ✓ The terms and conditions of any options that are exercisable after initial optional periods (for example, a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).
 - B. Significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;
 - C. Costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location;
 - D. The importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialized asset, the location of the underlying asset and the availability of suitable alternatives; and
 - E. Conditionality associated with exercising the option (i.e., when the option can be exercised only if one or more conditions are met), and the likelihood that those conditions will exist.
29. A lessee's past practice regarding the period over which it has typically used particular types of assets, may provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option.
30. A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option. Upon the occurrence of either a significant event or a significant change in circumstances that:
- A. Is within the control of the lessee; and
 - B. Affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

Example 43.6 - Examples of Factors Considered when Reassessing Lease Term

Examples of significant events or changes in circumstances include:

- A. Significant leasehold improvements not anticipated at the commencement date that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;



Example 43.6 - Examples of Factors Considered when Reassessing Lease Term

- B. A significant modification to, or customization of, the underlying asset that was not anticipated at the commencement date;
- C. The inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term; and
- D. A decision of the lessee that is directly relevant to exercising, or not exercising, an option (for example, a decision to extend the lease of a complementary asset, to dispose of an alternative asset).



31. An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non- cancellable period of a lease will change if:

- A. The lessee exercises an option not previously included in the entity's determination of the lease term;
- B. The lessee does not exercise an option previously included in the entity's determination of the lease term;
- C. An event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term; or
- D. An event occurs that contractually prohibits the lessee from exercising an option previously included in the entity's determination of the lease term.

Recognition of lease contracts in the financial statements of lessees**Recognition**

32. At the commencement date, a federal entity (lessee) shall recognize a right-of-use asset and a lease liability.

Measurement**Initial Measurement****Initial Measurement of the Right-of-Use Asset**

33. At the commencement date, a lessee shall measure the right-of-use asset at cost.

34. The cost of the right-of-use asset shall comprise:

- A. The amount of the initial measurement of the lease liability, as described in paragraph 36;
- B. Any lease payments made at or before the commencement date, less any lease incentives received;
- C. Any initial direct costs incurred by the lessee; and

- D. An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

35. A lessee shall recognize the costs described in paragraph 34 (D) as part of the cost of the right-of-use asset when it incurs an obligation for those costs.

Initial Measurement of the Lease Liability



36. At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.



37. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:
- A. Fixed payments less any lease incentives receivable;
 - B. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, For example, payments linked to a consumer price index, or to a benchmark interest rate (such as LIBOR);
 - C. Amounts expected to be payable by the lessee under residual value guarantees;
 - D. The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
 - E. Payments of penalties of terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.



Example 43.7 - Initial Measurement of the Right-of-use Asset and the Lease Liability

A federal entity (lessee) enters a 10-year lease of a floor of a building, with an option to extend for five years. Lease payments are AED 50,000 per year during the initial term and AED 55,000 per year during the optional period, all payable at the beginning of each year.

To obtain the lease, The federal entity incurs initial direct costs of AED 20,000, of which:

- ✓ AED 15,000 relates to a payment to a former tenant occupying that floor of the building, and;
- ✓ AED 5,000 relates to a commission paid to the real estate agent that arranged the lease.

As an incentive to the federal entity for entering into the lease, the lessor agrees to reimburse to the federal entity the real estate commission of AED 5,000.

Example 43.7 - Initial Measurement of the Right-of-use Asset and the Lease Liability

At the commencement date, the federal entity concludes that it is not reasonably certain to exercise the option to extend the lease and, therefore, determines that the lease term is 10 years.

The interest rate implicit in the lease is not readily determinable. The federal entity incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which the federal entity could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

The first step - Determine the amount of the asset and liability that should be recognized at initial recognition.

At the commencement date, the federal entity makes the lease payment for the first year, incurs initial direct costs, receives the lease incentive from the institution and measures the lease liability at the present value of the remaining nine payments of AED 50,000, discounted at the interest rate of 5 per cent per annum, which is AED 355,391.

*This amount has been calculated as per follows:

$$(50,000/(1.05)^1) + (50,000/(1.05)^2) + (50,000/(1.05)^3 + \dots + (50,000/(1.05)^{10}) + 20,000 - 5,000 = 420,391$$

The Agency initially recognises assets and liabilities in relation to the lease as follows:

Description	Debit	Credit
Right-of-use asset	420,391	
Lease liability		355,391
Cash (lease payment for the first year)		50,000
Cash (initial direct cost)		15,000

Subsequent Measurement**Subsequent Measurement of the Right-of-Use Asset**

38. After the commencement date, a lessee shall measure the right-of-use asset applying a cost model.

Cost Model

39. To apply a cost model, a lessee shall measure the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; (adjusted for any remeasurement of the lease liability specified in paragraph 43 C).
40. A lessee shall apply the depreciation requirements in Federal Government Accrual Accounting Standard 17 in depreciating the right-of-use asset, subject to the requirements in paragraph 41.
41. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase



option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of:

- A. The end of the useful life of the right-of-use asset, or;
- B. The end of the lease term.



42. A lessee shall apply Federal Government Accrual Accounting Standard 21 "Impairment of Non-Cash-Generating Assets" or Federal Government Accrual Accounting Standard 26 "Impairment of Cash-Generating Assets", as appropriate, to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Subsequent Measurement of the Lease Liability



43. After the commencement date, a federal entity (lessee) shall measure the lease liability by:
- A. Increasing the carrying amount to reflect interest on the lease liability;
 - B. Reducing the carrying amount to reflect the lease payments made; and
 - C. Remeasuring the carrying amount to reflect any reassessment or lease modifications.
44. After the commencement date, a lessee shall recognize in financial performance:
- A. Interest on the lease liability; and
 - B. Variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.



Example 43.8 - Subsequent Measurement of the Right-of-use Asset and the Lease Liability

The same information used in Example 43.7 will be used to continue the accounting treatment

The second step - Determine the amount of the finance costs and reduce the liability related to the lease payments

	Lease liability				Right-of-use assets		
	Beginning Balance	Lease payment	5% interest expense (finance costs)	Ending balance	Beginning Balance	Depreciation charge	Ending balance
Year	AED	AED	AED	AED	AED	AED	AED
1	355.391	-	17.770	373.161	420.391	(42.039)	378.352

Example 43.8 - Subsequent Measurement of the Right-of-use Asset and the Lease Liability

2	373.161	(50.000)	*16.158	339.319	378.352	(42.039)	336,313
3	**339.319	(50.000)	14.466	303.785	336.313	(42.039)	294.274
4	303.785	(50.000)	12.689	266.474	294.274	(42.039)	252.235
5	266.474	(50.000)	10.823	227.297	252.235	(42.039)	210.196
6	227.297	(50.000)	8.865	186.162	210.196	(42.039)	168.157
7	186.162	(50.000)	6.808	142.970	168.157	(42.039)	126.118
8	142.970	(50.000)	4.649	97.619	126.118	(42.039)	84.079
9	97.619	(50.000)	2.381	50.000	84.079	(42.039)	42.039
10	50.000	(50.000)	0.000	0.000	42.039	(42.039)	0

These amounts have been calculated as follows:

*Finance costs at the end of the period = (the balance of the liability at the beginning of the period - payment balance) x interest rate
 $(373.161 - 50.000) \times 0.05 = 16.158$

**The balance of the liability at the beginning of the period
 $(373.161 - 50.000 + 16.158) = 339.319$

**The third step - Recording payment entries and asset depreciation at the end of each year
 At the end of the first year**

- Recording the depreciation expenses of the right-of-use asset (the building) for the earlier period of the contract period (10 years) and the building useful life (30 years)

Description	Debit	Credit
Depreciation expense - Right-of-use building amounted to (420.391) divided by 10 years	42.039	
Accumulated depreciation - Right-of-use building		42.039

- Recording finance costs linked to the lease contract

Description	Debit	Credit
Finance costs	17.770	
Cash		17.770

Example 43.8 - Subsequent Measurement of the Right-of-use Asset and the Lease Liability

At the end of the second year

1. Recording depreciation expenses

Description	Debit	Credit
Depreciation expense - Right-of-use building	42.039	
Accumulated depreciation - Right-of-use building		42.039

2. Recording lease payments and reduce the liability related to the lease contract

Description	Debit	Credit
Lease liability	50.000	
Finance cost	16.158	
Cash		66.158

Remeasurement of the Lease Liability



45. After the commencement date, a lessee shall apply paragraphs 46-50 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in surplus or deficit.



46. A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:
- A. There is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
 - B. There is a change in the assessment of an option to purchase the underlying asset, considering the events and circumstances described in paragraphs 30-31. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.



47. In applying paragraph 46, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.



48. A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:



- A. There is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect that change.
- B. There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.
49. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.
50. In applying paragraph 48, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates, in that case, the lessee shall use a revised discount rate that reflects in the interest rate.



Example 43.9 - Subsequent Measurement and Accounting for a Change in the Lease Term

The same information used in Example 43.7 will be used to continue the accounting treatment

In the sixth year of the lease, the federal entity (lessee) was merged with "Entity A". "Entity A" has been leasing a floor in another building. The lease entered into by "Entity A" contains a termination option that is exercisable.

Following the merger, the federal entity (lessee) enters into:

- ✓ a separate eight-year lease of another floor in the building leased that will be available for use at the end of Year 7.
- ✓ Terminates early the lease entered into by "Entity A" with effect from the beginning of Year 8.

Moving "Entity A's" staff to the same building occupied by Lessee creates an economic incentive for Lessee to extend its original lease at the end of the non-cancellable period of 10 years. The merge of "Entity A" and the relocation of "Entity A's" staff is a significant event that is within the control of Lessee and affects whether Lessee is reasonably certain to exercise the extension option not previously included in its determination of the lease term. This is because the original floor has greater utility (and thus provides greater benefits) to Lessee than alternative assets that could be leased for a similar amount to the lease payments for the optional period-Lessee would incur additional costs if it were to lease a similar floor in a different building because the workforce would be located in different buildings. Consequently, at the end of Year 6, Lessee concludes that it is now reasonably certain to exercise the option to extend its original lease as a result of its merge and planned relocation of "Entity A".

Right-of-use assets and lease liability for Year 6 are as follows:

Lease liability				Right-of-use assets		
Beginning Balance	Lease payment	5% interest expense	Ending balance	Beginning Balance	Depreciation charge	Ending balance

Example 43.9 - Subsequent Measurement and Accounting for a Change in the Lease Term

Year	AED	AED	AED	AED	AED	AED	AED
6	227.297	(50.000)	8.865	186.162	210.196	(42.039)	168.157

At the end of the sixth year, before accounting for the change in the lease term, the lease liability is AED 186.162 (the present value of four remaining payments of AED 50.000, discounted at the original interest rate of 5% per annum). Interest expense of AED 8.865 is recognized in Year 6. Lessee's right-of-use asset is AED 168.157.

Lessee's incremental borrowing rate at the end of Year 6 is 6% per annum.

Lessee remeasures the lease liability at the present value of four payments of AED 50.000 followed by five payments of AED 55.000, all discounted at the revised discount rate of 6% per annum, which is AED 378.174.

Lessee increases the lease liability by AED 192.012, which represents the difference between the remeasured liability of AED 378.174 and its previous carrying amount of AED 186.162. The corresponding adjustment is made to the right-of-use asset to reflect the cost of the additional right of use, recognized as follows (AED):

Description	Debit	Credit
Right-of-use asset	192.012	
Lease liability		192.012

Following the remeasurement, the carrying amount of Lessee's right-of-use asset is AED 360.169 (i.e., AED 168.157 + AED 192.012). From the beginning of Year 7 Lessee calculates the interest expense on the lease liability at the revised discount rate of 6% per annum.

The right-of-use asset and the lease liability from Year 7 to Year 15 are as follows:

Year	Lease liability				Right-of-use assets		
	Beginning Balance	Lease payment	6% interest expense	Ending balance	Beginning Balance	Depreciation charge	Ending balance
Year	AED	AED	AED	AED	AED	AED	AED
7	378.174	(50.000)	19.690	347.864	360.169	(40.019)	320.150
8	347.864	(50.000)	17.872	315.736	320.150	(40.019)	280.131
9	315.736	(50.000)	15.944	281.680	280.131	(40.019)	240.112
10	281.680	(50.000)	13.901	245.581	240.112	(40.019)	200.093
11	245.581	(50.000)	11.435	202.016	200.093	(40.019)	160.074
12	202.016	(50.000)	8.821	155.837	160.074	(40.019)	120.055

Example 43.9 - Subsequent Measurement and Accounting for a Change in the Lease Term

13	155.837	(50.000)	6.050	106.887	120.055	(40.019)	80.036
14	106.887	(50.000)	3.113	55.000	80.036	(40.019)	40.018
15	55.000	(50.000)	-	-	40.018	(40.019)	-

Lease Modifications



51. A lessee shall account for a lease modification as a separate lease if both:

- A. The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- B. The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.



Example 43.10 - Lease Modification - Modification that is a Separate Lease

The Ministry of Energy enters into a 10-year lease for 2,000 square meters of office space. At the beginning of Year 6, The Ministry and the private institution (Lessor) agree to amend the original lease for the remaining five years to include an additional 3,000 square meters of office space in the same building. The additional space is made available for use by The Ministry at the end of the second quarter of Year 6.

The increase in total consideration for the lease is commensurate with the current market rate for the new 3,000 square meters of office space, adjusted for the discount that The Ministry receives reflecting that the private institution does not incur costs that it would otherwise have incurred if leasing the same space to a new tenant (for example, marketing costs).

The Ministry accounts for the modification as a separate lease, separate from the original 10-year lease, due to the following conditions:

- ✓ This modification grants The Ministry an additional right to use an underlying asset, and;
- ✓ The increase in consideration for the lease is commensurate with the stand-alone price of the additional right-of-use adjusted to reflect the circumstances of the contract.

In this example, the additional underlying asset is the new 3,000 square meters of office space. Accordingly, at the commencement date of the new lease (at the end of the second quarter of Year 6), The Ministry recognises a right-of-use asset and a lease liability relating to the lease of the additional 3,000 square meters of office space. The Ministry does not make any adjustments to the accounting for the original lease of 2,000 square meters of office space as a result of this modification.



52. For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

- A. Allocate the consideration in the modified contract;
- B. Determine the lease term of the modified lease; and
- C. Remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of

the modification, if the interest rate implicit in the lease cannot be readily determined.

53. For a lease modification that is not accounted for a separate lease, the lessee shall account for the remeasurement of the lease liability by:

- A. Decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognize in financial performance any gain or loss relating to the partial or full termination of the lease.
- B. Making a corresponding adjustment to the right-of-use asset for all other lease modifications.



Example 43.11 - Lease Modification - Modification that Increases the Scope of the Lease by Extending the Contractual Lease Term

National Media Council enters into a 10-year lease for 5,000 square meters of office space. The annual lease payments are AED 100,000 payable at the end of each year. At the beginning of Year 7, The Council and the institution agree to amend the original lease by extending the contractual lease term by four years. The annual lease payments are unchanged (i.e. AED 100,000 payable at the end of each year from Year 7 to Year 14).

The Council's incremental borrowing rate at the commencement date is 6% per annum, and at the beginning of Year 7 is 7% per annum.

At the effective date of the modification (at the beginning of Year 7), The Council remeasures the lease liability based on:

- ✓ An eight-year remaining lease term,
- ✓ Annual payments of AED 100,000 and
- ✓ The Council's incremental borrowing rate of 7% per annum.

The Council recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification as an adjustment to the right-of-use asset.

- ✓ The lease liability immediately before the modification until the end of Year 6 is AED 346,511.
- ✓ The modified lease liability equals AED 597,130.

$597,130 - 346,511 = \text{AED } 250,619$: Right-of-use assets modification.

The Council records the following entry to recognise the modification on the right-of-use assets:

Description	Debit	Credit
Right-of-use asset	250.619	
Lease liability		250.619



Example 43.12 - Lease Modification - Modification that Decreases the Scope of the Lease

A federal entity enters into a 10-year lease for 5,000 square meters of office space. The annual lease payments are AED 50,000 payable at the end of each year. At the beginning of Year 6, the federal entity and the Lessor agree to amend the original lease to reduce the space to only 2,500 square meters of the original space starting from the end of the first quarter of Year 6. The federal entity's incremental borrowing rate at the commencement date is 6%, and 5% per annum at the beginning of Year 6. The annual fixed lease payments (from Year 6 to Year 10) are AED 30,000.

At the effective date of the modification (at the beginning of Year 6), The federal entity remeasures the lease liability based on:

- ✓ A five-year remaining lease term;
- ✓ Annual payments of AED 30,000, and;
- ✓ The federal entity's incremental borrowing rate of 5% per annum.

The modified lease liability = AED 129,884.

The federal entity recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification as an adjustment to the right-of-use asset.

- ✓ The federal entity determines the proportionate decrease in the carrying amount of the right-of-use asset on the basis of the remaining right-of-use asset (i.e. 2,500 square meters corresponding to 50 per cent of the original right-of-use asset).
 - Right-of-use asset pre-modification = AED 184,002.
 - 50% of the pre-modification right-of-use asset = AED 92,001.
 - lease liability pre-modification = AED 210,618.
 - 50% of the pre-modification lease liability = AED 105,309.
- ✓ Consequently, the federal entity reduces the carrying amount of the right-of-use asset by AED 92,001 and the carrying amount of the lease liability by AED 105,309 and recognises the difference between the decrease in the lease liability and the decrease in the right-of-use asset (AED 105,309 - AED 92,001 = AED 13,308) as a gain in the statement of financial performance at the effective date of the modification (at the beginning of Year 6).

Description	Debit	Credit
Right-of-use asset	105,309	
Lease liability		92,001
Gain		13,308

The federal entity records the following entry to recognise the modification on the right-of-use assets:

The federal entity recognises the difference between the remaining lease liability of AED 105,309 and the modified lease liability of AED 129,884 (which equals AED 24,575) as an

Example 43.12 - Lease Modification - Modification that Decreases the Scope of the Lease

adjustment to the right-of-use asset reflecting the change in the consideration paid for the lease and the revised discount rate.

Description	Debit	Credit
Right-of-use asset	24.575	
Lease liability		24.575

Presentation

54. A lessee shall either present in the statement of financial position, or disclose in the notes:

- A. Right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:
 - ✓ Include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
 - ✓ Disclose which line items in the statement of financial position include those right-of-use assets.
- B. Lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.



55. The requirement in paragraph 54 (A) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

56. In the statement of financial performance, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which Federal Government Accrual Accounting Standard 1 "Presentation of Financial Statements" requires to be presented separately in the statement of financial performance.

57. In the cash flow statement, a lessee shall classify:

- A. Cash payments for the principal of the lease liability within financing activities;
- B. Cash payments for the interest portion of the lease liability applying the requirements in Federal Government Accrual Accounting Standard 2 "Cash Flow Statement" for interest paid; and
- C. Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Disclosure



58. The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee, paragraphs 59-63 specify requirements on how to meet this objective.
59. A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.



60. A lessee shall disclose the following amounts for the reporting period:
- A. Depreciation charge for right-of-use assets by class of underlying asset;
 - B. Interest expense on lease liabilities;
 - C. The expense relating to short-term leases accounted for. This expense need not include the expense relating to leases with a lease term of one month or less;
 - D. The expense relating to leases of low-value assets. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 60 (C);
 - E. The expense relating to variable lease payments not included in the measurement of lease liabilities;
 - F. Revenue from subleasing right-of-use assets;
 - G. Total cash outflow for leases;
 - H. Additions to right-of-use assets;
 - I. Gains or losses arising from sale and leaseback transactions; and
 - J. The carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.



61. A lessee shall provide the disclosures specified in paragraph 60 in a tabular format. The amounts disclosed shall include cost that a lessee has included in the carrying amount of another asset during the reporting period .
62. A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 60 (C) relates.
63. If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements of Federal Government Accrual Accounting Standard 16.
64. A lessee shall disclose a maturity analysis of lease liabilities applying Federal Government Accrual Accounting Standard 30 "Financial Instruments: Disclosures" separately from the maturity analyses of other financial liabilities.



65. In addition to the disclosures required in paragraphs 60-64, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 58. This additional information may include, but is not limited to, information that helps users of financial statements to assess:
- A. The nature of the lessee's leasing activities;
 - B. Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
 - ✓ Variable lease payments;

- ✓ Extension options and termination options;
 - ✓ Residual value guarantees;
 - ✓ Leases not yet commenced to which the lessee is committed.
- C. Restrictions or covenants imposed by leases; and
- D. Sale and leaseback transactions.



66. A lessee that accounts for short-term leases or leases of low-value assets shall disclose that fact.

Recognition of lease contracts in the financial statements of lessors

Classification of Leases



67. A federal entity (lessor) shall classify each of its leases as either an operating lease or a finance lease.

68. A federal entity classifies a lease as follows:

- A. Finance lease: if the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset.
- B. Operating lease: if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

69. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract, leases are classified based on the extent to which one party bears the risks related to the asset and benefits associated with ownership of the leased asset.



70. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- A. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- B. The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- C. The lease term is for the major part of the economic life of the underlying asset even if title is not transferred. The lease term is a major part of the economic life of the assets when it exceeds 75% of the economic life of the asset.
- D. At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- E. The underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

71. In addition to the indicators mentioned above, situations that individually or in combination could also lead to a lease being classified as a finance lease are:

- A. If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- B. Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- C. The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

72. Lease classification is made at the inception date and is reassessed only if there is a lease modification.

Finance Leases

Recognition and Measurement



73. At the commencement date, a lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

Initial Measurement



74. The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

75. Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease.

Initial Measurement of the Lease Payments Included in the Net Investment in the Lease



76. At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- A. Fixed payments (including in-substance fixed payments), less any lease incentives payable;
- B. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- C. Any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

- D. The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- E. Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent Measurement



- 77. A federal entity shall recognize finance revenue over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.
- 78. A federal entity aims to allocate finance revenue over the lease term on a systematic and rational basis. A federal entity (Lessor) shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance revenue.
- 79. A lessor shall apply the derecognition and impairment requirements in Federal Government Accrual Accounting Standard 41 to the net investment in the lease. A lessor shall regularly review estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the revenue allocation over the lease term and recognize immediately any reduction in respect of amounts accrued.
- 80. A lessor that classifies an asset under a finance lease as held for sale (or includes it in a disposal group that is classified as held for sale) applying the requirements in Federal Government Accrual Accounting Standard 44 "Non-current assets held for sale and discontinued operations" shall account for the asset in accordance with that Standard.

Lease Modifications



- 81. A lessor shall account for a modification to a finance lease as a separate lease if both:
 - A. The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
 - B. The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.
- 82. For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:
 - A. If the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:
 - ✓ Account for the lease modification as a new lease from the effective date of the modification; and
 - ✓ Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.
 - B. Otherwise, the lessor shall apply the requirements of Federal Government Accrual Accounting Standard 41.

Operating Leases

Recognition and Measurement



83. A lessor shall recognize lease payments from operating leases as revenue on either a straight-line basis or another systematic basis.
84. A lessor shall recognize costs, including depreciation, incurred in earning the lease revenue as an expense.
85. A federal entity (Lessor) shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognize those costs as an expense over the lease term on the same basis as the lease revenue.
86. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with Federal Government Accrual Accounting Standard 17 and Federal Government Accrual Accounting Standard 31.
87. A lessor shall apply Federal Government Accrual Accounting Standard 21 or Federal Government Accrual Accounting Standard 26, as appropriate, to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

Lease Modifications



88. A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Presentation



89. A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset.

Disclosure

90. The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 92-99 specify requirements on how to meet this objective.

91. A lessor shall disclose the following amounts for the reporting period:



A. For finance leases:

- ✓ Selling surplus or deficit;
- ✓ Finance revenue on the net investment in the lease; and
- ✓ Revenue relating to variable lease payments not included in the measurement of the net investment in the lease.

- B. For operating leases, lease revenue, separately disclosing revenue relating to variable lease payments that do not depend on an index or a rate.



- 92. A lessor shall provide the disclosures specified in paragraph 92 in a tabular format.
- 93. A lessor shall disclose additional qualitative and quantitative information about its leasing activities. This additional information includes, but is not limited to, information that helps users of financial statements to assess:
 - A. The nature of the lessor's leasing activities; and
 - B. How the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance Leases



- 94. A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.
- 95. A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance revenue relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating Leases



- 96. For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of Federal Government Accrual Accounting Standard 17. A lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by Federal Government Accrual Accounting Standard 17 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.
- 97. A lessor shall apply the disclosure requirements in Federal Government Accrual Accounting Standard 16, Federal Government Accrual Accounting Standard 21, Federal Government Accrual Accounting Standard 27 and Federal Government Accrual Accounting Standard 31 for assets subject to operating leases.
- 98. A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

Sale and Leaseback Transactions



99. If a federal entity (the seller-lessee) transfers an asset to another federal entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 101-105.

Assessing Whether the Transactions of the Asset is a Sale



100. A federal entity shall apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the Asset is a Sale



101. If the transfer of an asset by the seller-lessee satisfies the requirements of Revenue standard to be accounted for as a sale of the asset:

- A. The seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
- B. The buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.



102. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, a federal entity shall make the following adjustments to measure the sale proceeds at fair value:

- A. Any below-market terms shall be accounted for as a prepayment of lease payments;
- B. Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

103. The federal entity shall measure any potential adjustment required by paragraph 103 on the basis of the more readily determinable of:

- A. The difference between the fair value of the consideration for the sale and the fair value of the asset; and
- B. The difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

After the commencement date, the seller-lessee shall apply paragraphs 38-42 to the right-of-use asset arising from the leaseback and paragraphs 43-53 to the lease liability arising from the leaseback. In applying paragraphs 43-53, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

Applying the requirements in this paragraph does not prevent the seller-lessee from recognizing in surplus or deficit any gain or loss relating to the partial or full termination of a lease as required by paragraph 53(a).

Transfer of the Asset is not a Sale



104. If the transfer of an asset by the seller-lessee does not satisfy the requirements of Revenue standard to be accounted for as a sale of the asset:

- A. The seller-lessee shall continue to recognize the transferred asset and shall recognize a financial liability equal to the transfer proceeds. It shall account for the financial liability applying Federal Government Accrual Accounting Standard 41.
- B. The buyer-lessor shall not recognize the transferred asset and shall recognize a financial asset equal to the transfer proceeds. It shall account for the financial asset applying Federal Government Accrual Accounting Standard 41.

Transition on initial application

105. For the purposes of the requirements in this standard, the date of initial application is the beginning of the annual reporting period in which an entity first applies this standard

Definition of a lease

106. As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

- A. To apply this standard to contracts that were previously identified as Leases applying FGAAS 13. The entity shall apply the transition requirements in paragraphs 108-121 to those leases.
- B. To not apply this standard to contracts that were not previously identified as containing a lease applying FGAAS 13.

107. If an entity chooses the above practical expedient, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply this standard requirements only to contracts entered into (or changed) on or after the date of initial application.

Lessees

108. A lessee shall apply this Standard to its leases Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs 110-116.

109. A lessee shall apply the election described in paragraph 108 consistently to all of its leases in which it is a lessee.

110. When the lessee apply this Standard to its leases "Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application", the lessee shall not restate comparative information. Instead, the lessee shall recognize the cumulative effect

of initially applying this Standard as an adjustment to the opening balance of accumulated surpluses/(deficits) (or other component of net assets/equity, as appropriate) at the date of initial application .

Leases Previously Classified as operating lease

111. When the lessee apply this Standard to its leases "Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application" , the lessee shall:

- A. Recognize a lease liability at the date of initial application for leases previously classified as operating lease applying FGAAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- B. Recognize a right of use asset at the date of initial application for leases previously classified as an operating lease applying FGAAS 13. The lessee shall, on a lease-by-lease basis, measure that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.
- C. Apply FGAAS 21 or FGAAS 26, as appropriate, to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph 113(b).

112. Notwithstanding the requirements in paragraph 111, for leases previously classified as operating leases applying FGAAS 13, a lessee is not required to make any adjustments on transition for leases for which the underlying asset is of low value that will be accounted for applying paragraph 7. The lessee shall account for those leases applying this Standard from the date of initial application.

113. A lessee may use one or more of the following practical expedients when applying this Standard "Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application" , to leases previously classified as operating leases applying FGAAS 13. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

- A. A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- B. A lessee may rely on its assessment of whether leases are onerous applying FGAAS 19 immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognized in the statement of financial position immediately before the date of initial application.

- C. A lessee may elect not to apply the requirements in paragraph 111 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall:
 - Account for those leases in the same way as short-term leases as described in paragraph 6; and
 - Include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.
- D. A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- E. A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Leases previously classified as Finance leases

114. When the lessee apply this Standard to its leases "Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application", for leases that were classified as finance leases applying FGAAS 13, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying FGAAS 13. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

115. When the lessee apply this Standard to its leases "Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application", the lessee shall disclose information about initial application required by paragraph 22 of FGAAS 3, except for the information specified in paragraph 22(f) of FGAAS 3. Instead of the information specified in paragraph 22(f) of FGAAS 3, the lessee shall disclose:

- A. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application ; and
- B. An explanation of any difference between:
 - ✓ Operating lease commitments disclosed applying FGAAS 13 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph 111(a); and
 - ✓ Lease liabilities recognized in the statement of financial position at the date of initial application.

116. If a lessee uses one or more of the specified practical expedients in paragraph 113, it shall disclose that fact.

Lessors

117. Except as described in paragraph 118, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

118. An intermediate lessor shall:

- A. Reassess subleases that were classified as operating leases applying FGAAS 13 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or a finance lease applying this Standard. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date.
- B. For subleases that were classified as operating leases applying IPSAS 13 but finance leases applying this Standard, account for the sublease as a new finance lease entered into at the date of initial application.

Sale and Leaseback Transactions Before the Date of Initial Application

119. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in Revenue standard to be accounted for as a sale.

120. If a sale and leaseback transaction was accounted for as a sale and a finance lease applying FGAAS 13, the seller-lessee shall:

- A. Account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and
- B. Continue to amortize any gain on sale over the lease term.

121. If a sale and leaseback transaction was accounted for as a sale and operating lease applying FGAAS 13, the seller-lessee shall:

- A. Account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and
- B. Adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off market terms recognized in the statement of financial position immediately before the date of initial application.

Amounts Previously Recognized in Respect of Public Sector Combinations

122. If a lessee previously recognized an asset or a liability applying FGAAS 40, Public Sector Combinations relating to favorable or unfavorable terms of an operating lease acquired as part of a public sector combination, the lessee shall derecognize that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount at the date of initial application.

Transitional Provisions

A federal entity shall apply this Standard “Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application” when accounting for lease contracts that have been recognized, measured, and have been disclosed.

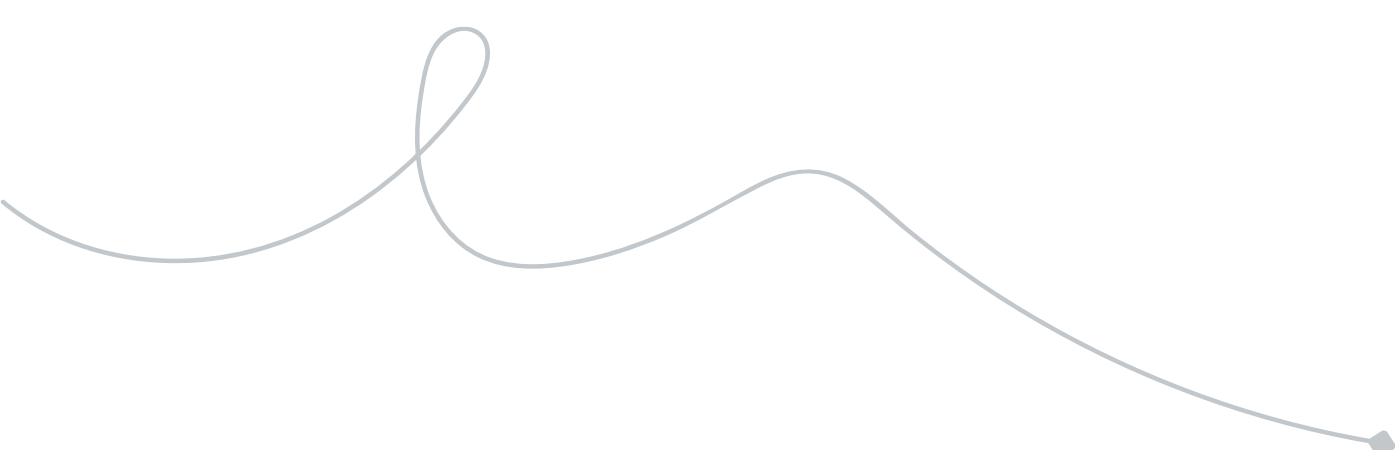
Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025.

Technical References

IPSAS 43 - Leases



Standard 32 - Service Concession Arrangements: Grantor

Standard 32 - Service Concession Arrangements: Grantor

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 32 (IPSAS 32) which provides for recognition, measurement bases, presentation and disclosure of service concession arrangements and resulting liabilities. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

The Standard for Service Concession Arrangements: Grantor - Table of Contents

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Objective

1. The objective of this Standard is to define a service concession arrangement and its key components and prescribe the requirements for recognition and measurement of resulting assets and liabilities and the bases for presentation and disclosure of related information in federal entities' financial statements.
2. This Standard primarily addresses the following topics:
 - A. Prescribing key components of a service concession arrangement;
 - B. Recognition requirements and measurement bases for assets resulting from such arrangements;
 - C. Requirements for recognition and classification of liabilities into appropriate models (Financial Liability Model and Grant of Right to the Operator Model);
 - D. Measurement bases for liabilities resulting from such arrangements, as per the appropriate model;
 - E. Subsequent measurement of assets and liabilities;
 - F. Presentation and disclosure requirements and bases for transactions arising from service concession arrangements.

Scope



3. This Standard applies to federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto.

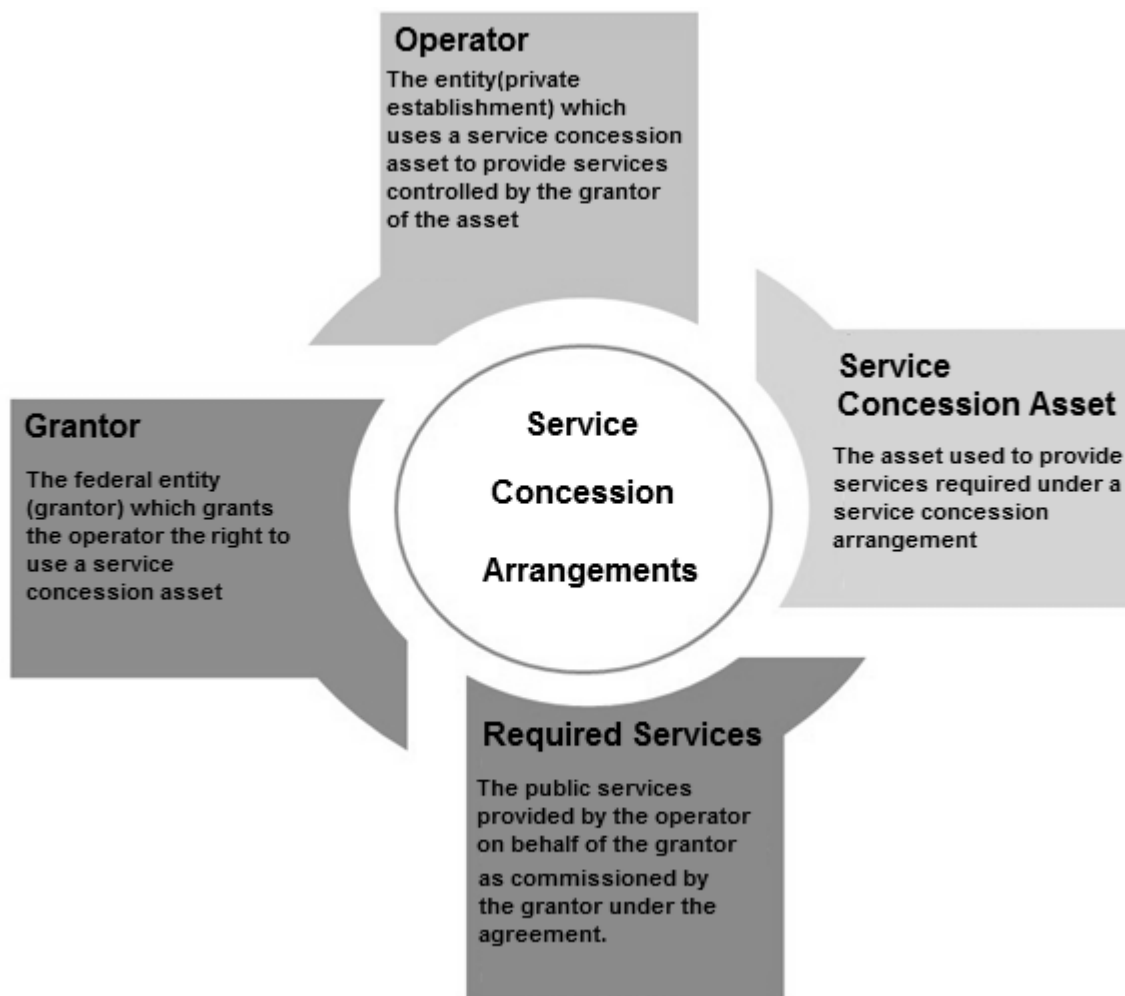


4. This Standard covers arrangements under which an operator provides public services using a service concession asset on behalf of a federal entity that grants the right to use said asset to a private establishment or third party that uses the same to provide public services. Such a federal entity is referred to in this Standard as the grantor.
5. Arrangements that do not involve the provision of public services or include elements of service and management but do not establish a federal entity's (grantor's) control of an asset are outside the scope of this Standard.
6. This Standard does not specify the accounting by the private establishment or third party that uses a service concession asset controlled by the grantor. Such a private establishment or third party is referred to in this Standard as the operator.

Identification of Service Concession Arrangements



7. A service concession arrangement is a contractual arrangement between a grantor (federal entity) and an operator (private establishment or third party) under which the operator operates service concession assets to provide prescribed services on behalf of the grantor for a specified period. The operator is compensated for its services over the service concession period. The following diagram illustrates the key components of a service concession arrangement.



Recording Service Concession Assets

Recognition of Service Concession Assets



8. A federal entity (grantor) shall recognize an asset provided by an operator, or an upgrade by an operator to an existing asset of the grantor, as a service concession asset if:
 - A. The grantor controls the regulation of:
 - ✓ What services the operator must provide with the asset;
 - ✓ To whom said services must be provided; and
 - ✓ At what price said services must be provided.
 - B. The grantor controls, through ownership; usufruct or otherwise, any significant residual interest in the asset at the end of the arrangement term.
9. If a service concession asset is used for its entire useful life (a whole-of-life asset), a federal entity shall recognize the same as a service concession asset; if the conditions prescribed in paragraph 8 (A) are met.



10. When an operator purchases or constructs an asset or upgrades an existing asset that results in a services concession asset, a federal entity shall recognize such assets in its statement of financial position as service concession assets (provided that the recognition criteria prescribed in paragraphs 8 and 9 are met).



11. Where an asset of the grantor (federal entity) that already exists in the financial statements (statement of financial position) meets the conditions prescribed in paragraphs 8 and 9, the federal entity shall reclassify said existing asset as a service concession asset.
12. After initial recognition (in accordance with paragraph 10) or reclassification (in accordance with paragraph 11), service concession assets shall be accounted for as a separate class of assets in accordance with FGAAS 17 "Property, Plant and Equipment" or FGAAS 31 "Intangible Assets", as appropriate.

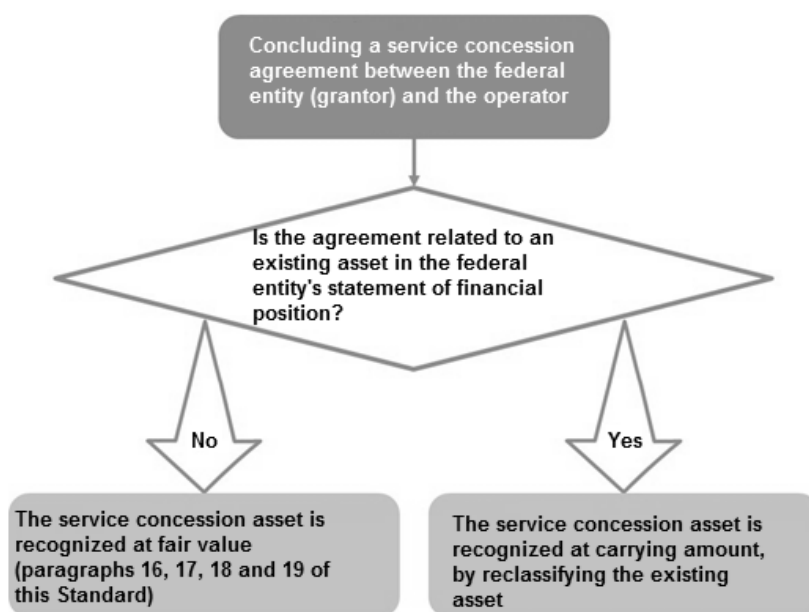


13. In addition to the aforementioned conditions (paragraph 8), a federal entity shall verify that a service concession asset meets the following key conditions:
 - A. Future economic benefits or service potential associated with the asset will flow to the federal entity. This is established when the federal entity receives the benefits and assumes the risks associated with the asset;
 - B. The cost or fair value of the asset can be determined reliably.

Measurement of Service Concession Assets



14. On initial recognition, a federal entity (grantor) shall measure a service concession asset at fair value, with the exception of assets already existing in the statement of financial position of the federal entity (grantor) that meet the conditions prescribed in paragraph 8 of this Standard, which shall be reclassified at their carrying amounts at the date of reclassification.
15. The following diagram summarises the bases for assessing a service concession asset on initial recognition:



16. For assets that are not already existing in the statement of financial position of a federal entity (grantor), the federal entity shall determine the fair value of a service concession asset based on the nature of compensations provided by the entity to the operator. A federal entity may compensate an operator by:

- A. Making cash payments to the operator; or
- B. Compensating the operator by other means, including:
 - ✓ Granting the operator the right to earn revenue from third-party users of a service concession asset;
 - ✓ Granting the operator access to another cash-generating asset.



17. With respect to compensations provided to an operator in the form of cash payments, a federal entity shall, on initial recognition of a service concession asset, determine its fair value by assessing the portion of payments made to the operator in respect of the asset. This may give rise to two different cases as follows:

- A. A federal entity (grantor) may divide compensation payments into asset-related amounts and service-related amounts; in which case, the value of the asset, on initial recognition, shall be the current value of asset-related compensation payments only and not service-related payments; unless said current value of payments exceeds the asset's fair value;
- B. If a federal entity (grantor) is unable to divide compensation payments into asset-related amounts and service-related amounts, it shall use assessment methods to determine the value of asset-related payments; where the current value of compensation payments may be proportionately allocated using the fair value of the asset and fair value of the services included in the arrangement.

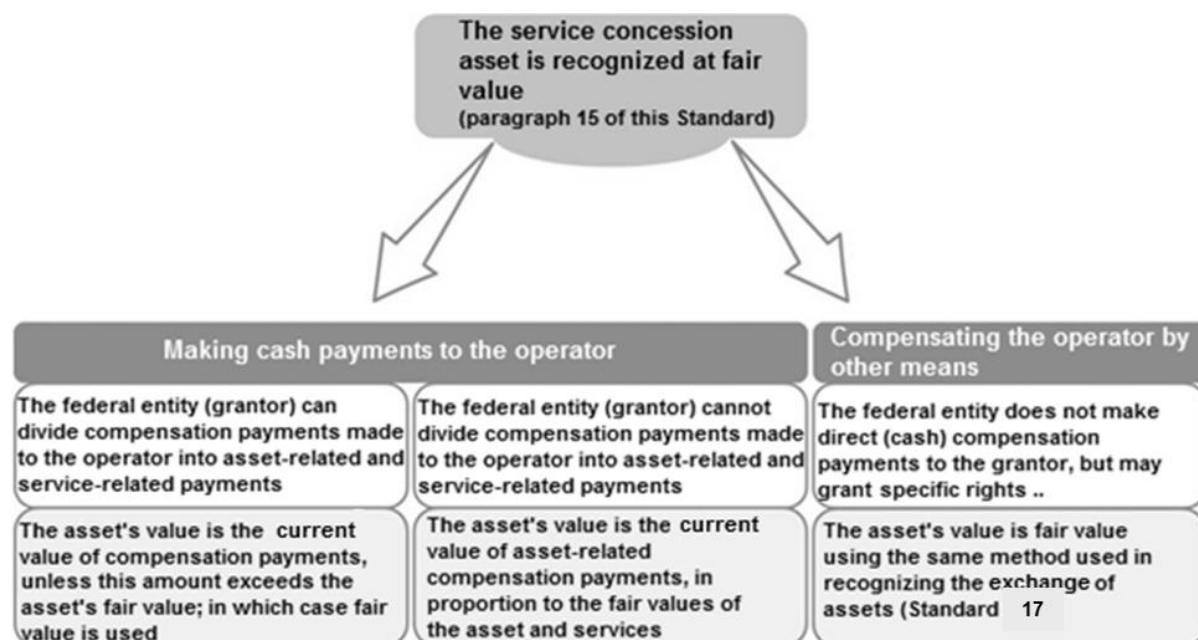


18. When a federal entity (grantor) does not make compensation payments to an operator, and may compensate the operator using other means (paragraph 16 (B)), an asset shall be



accounted for and its fair value determined in the same manner in which an exchange of non-monetary assets is recognized as prescribed in FGAAS 17 "Property, Plant and Equipment".

19. The following diagram summarises the bases for assessing a service concession asset on initial recognition:



Subsequent Measurement of Service Concession Assets



20. After initial recognition, a federal entity (grantor) shall adopt the following Federal Government Accrual Accounting Standards with respect to depreciation, amortisation, impairment and derecognition; as appropriate:

- FGAAS 17 "Property, Plant and Equipment";
- FGAAS 31 "Intangible Assets";
- FGAAS 26 "Impairment of Cash-generating Assets";
- FGAAS 21 "Impairment of Non-cash Generating Assets".



Example 32.1 - Initial Recognition of an Asset Through the Provision of Compensation Payments by the Federal Entity (Grantor)

A federal entity entered into an agreement with a private establishment where:

- ✓ The federal entity commissioned the private establishment to construct an administrative complex;
- ✓ The agreement included a set of services (construction, operation and maintenance) which the establishment must provide to users of the complex;
- ✓ Lease rates were set by mutual agreement of the federal entity and the establishment;

Example 32.1 - Initial Recognition of an Asset Through the Provision of Compensation Payments by the Federal Entity (Grantor)

- ✓ The federal entity must pay the private establishment an annual sum of AED 1,400,000 over the agreement term (10 years) in compensation for the constructed asset;
- ✓ The agreement states that all assets shall, upon expiry of the agreement term, be returned to the federal entity.

The fair value of a similar asset under other agreements involving only the construction of a similar administrative complex is AED 10 million.

For the purposes of this example, the borrowing rate was assumed to be 5%.

First Step: Determining whether the agreement is a service concession arrangement (by reference to paragraph 7).

- A. Grantor - Federal entity
- B. Operator - Private establishment
- C. Service concession asset - Administrative complex
- D. Commissioned services - Construction, operation and maintenance of the asset for 10 years

Therefore, this agreement is a service concession arrangement.

Second Step: Determining the recognition requirements and measurement method for the asset.

Under the agreement between the two parties, the federal entity shall specify / regulate the services to be provided by the operator (administrative building, construction, operation and maintenance), to whom they are to be provided (other private establishments) and at what price.

The asset subject to this arrangement does not currently exist in the federal entity's statement of financial position (it will be created by the operator). Accordingly, the federal entity shall recognize the asset at the current value of asset-related payments, unless said payments exceed the asset's fair value.

Be referring to paragraph 17 (A), the asset's fair value on initial recognition is the lower of:

The current value of compensation payments - *AED 10,810,429

The fair value of a similar asset - AED 10,000,000

*This amount is calculated using the "current value of annuity (PVA)" formula as follows:

$$P \left[\frac{1 - (1 + r)^{-n}}{r} \right]$$

- P: Annual compensation payments (AED 1,400,000)
- r: Borrowing rate 5%
- n: Number of payments (agreement term - 10 years)

Accordingly, the federal entity shall make the following accounting entry at the inception of the agreement:

Example 32.1 - Initial Recognition of an Asset Through the Provision of Compensation Payments by the Federal Entity (Grantor)

Description	Debit	Credit
Service Concession Asset - Buildings	10,000,000	
Service Concession Liability (See paragraph 24 for more details)		10,000,000

**Example 32.2 - Recording a Service Concession Asset through Reclassification**

At the beginning of 2010, a federal entity constructed a recycling station for the cost of AED 150 million (the useful life of the station is 30 years).

Accordingly, on December 31, 2014, the federal entity's statement of financial position presented the following information:

- ✓ Cost of Station: AED 150,000,000
- ✓ Accumulated Depreciation: AED 25,000,000: $\left(\frac{150,000,000}{30}\right) \times 5$

On April 15, 2015, the federal entity entered into an agreement with an operator to use and operate the station for 10 years. At that date, the useful life of the station was estimated to be 28 years and its residual value AED 300,000.

Accordingly, at the inception of the agreement, the federal entity makes the following entry:
Recording depreciation until April 15, 2015 (3 months and 15 days)

Description	Debit	Credit
Depreciation - Recycling Station $\left(\frac{150,000,000}{30}\right) \times \left(\frac{3.5}{12}\right)$	7,291,667	
Accumulated Depreciation - Recycling Station		7,291,667

Accordingly, the asset's carrying amount at the date of reclassification as a service concession asset is AED 117,708,333. Therefore, the federal entity makes the following entry:

Description	Debit	Credit
Service Concession Asset - Recycling Station	117,708,333	
Property, Plant and Equipment - Recycling Station		117,708,333

At the end of the fiscal period (December 31, 2015), the federal entity records depreciation as follows:

Description	Debit	Credit
Depreciation of a Service Concession Asset - Recycling Station $\left(\frac{117,708,333 - 300,000}{28}\right) \times \left(\frac{8.5}{12}\right)$	2,970,151	

Example 32.2 - Recording a Service Concession Asset through Reclassification		
Depreciation of a Service Concession Asset -Recycling Station		2,970,151

Recording Service Concession Liabilities



21. On initial recognition of a service concession asset, a federal entity shall also recognize a liability. However, a federal entity shall not recognize a liability where a service concession asset arises from reclassification of an existing asset of the federal entity (in accordance with paragraphs 11 and 14), except in cases where the operator provides additional compensation as provided for in paragraph 16.



22. A federal entity shall measure a liability at the same amount as the service concession asset, adjusted by the amount of any other consideration (e. g. cash) from the grantor to the operator or from the operator to the grantor.

23. The nature of the liability recognized shall be based on the nature of the consideration exchanged between the federal entity (grantor) and the operator. The nature of the consideration given by the grantor to the operator shall be determined by reference to the terms of the binding arrangement and, when relevant, contract law.



24. A federal entity (grantor) may compensate an operator for a service concession asset by any of the following:

- A. Making payments to the operator (the financial liability model);
- B. Compensating the operator by other means (the "grant of right to the operator" model) such as:
 - ✓ Granting the operator the right to earn revenue from third-party users of the service concession asset; or
 - ✓ Granting the operator access to another revenue-generating asset for the operator's use.

Financial Liability Model

Recognition



25. Where there is an unconditional obligation to pay cash or another financial asset to an operator for the construction, development, purchase or upgrade of a service concession asset, a federal entity (grantor) shall recognize a financial liability.



26. An unconditional obligation to pay arises when a federal entity guarantees to pay an operator:

- A. Specified or specifiable amounts;
- B. The deficit, if any, between amounts received by the operator from users of public services and any specified or specifiable amounts (referred to in the previous subparagraph), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

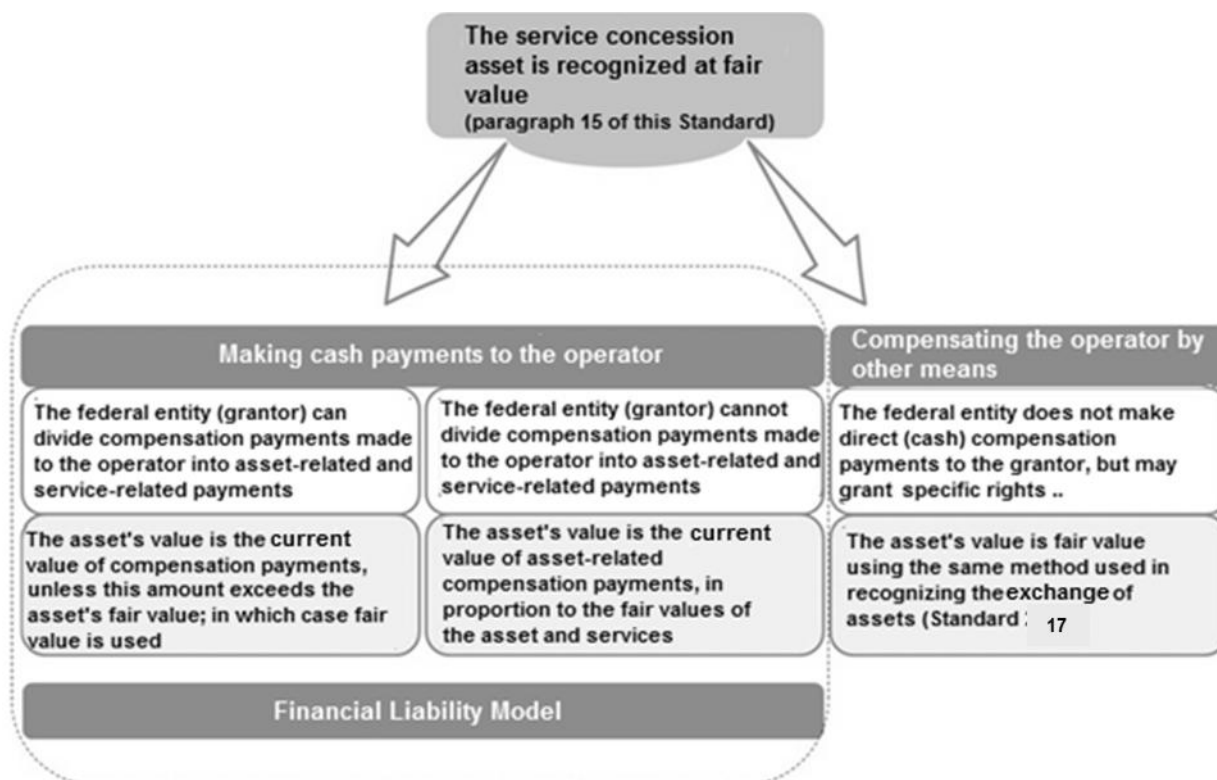
27. When paying specified amounts, a federal entity shall allocate payments between reduction of the liability associated with the asset and finance charges recorded in expenses for the period.

28. With respect to payments related to compensation for the service component paid by the federal entity (grantor) over the service concession term, said amounts shall be recognized as expenses when accrued.

Measurement



29. A federal entity shall measure a liability based on the value of the service concession asset with which the liability is associated as described in paragraph 17 of this Standard.





Example 32.3 - Recognition of a Service Concession Arrangement Transaction - Financial Liability Model

At the beginning of 2013, a federal entity entered into a 5-year service concession arrangement with a private establishment, under which the establishment (operator) is required to operate an asset that will be acquired (The cost of the asset is AED 20 million - Asset's useful life is 8 years) to provide a service.

In return, the federal entity will pay AED 430,000 a month over the training period. This amount includes 15,000 related to the service component of the service concession arrangement.

For the purposes of this example, the borrowing rate was assumed to be 8%.

First Step: Classifying the arrangement and determining the value of the asset and the liability on initial recognition

- A. Under the agreement, the operator will purchase the asset. Therefore, the federal entity shall recognize the asset by determining its fair value.
- B. Since the federal entity will make specified payments, where the asset component can be separated from the service component, the asset shall be measured by determining the current value of compensation payments (related to the asset), unless said amount exceeds the asset's fair value, in which case initial recognition shall be at fair value:
 - ✓ The current value of compensation payments (related to the asset) is AED 19,883,696*
 - ✓ Fair value is AED 20,000,000

*This amount is calculated using the "current value of annuity (PVA)" formula as follows:

- P: annual compensation payments related to the asset component (430,000 - 15,000) x 12
- r: Borrowing rate 8%
- n: Number of payments (agreement term - 5 years).

$$P \left[\frac{1 - (1 + r)^{-n}}{r} \right]$$

Therefore, the asset and the liability will be initially recognized at AED 19,883,696.

C. The liability is a "financial liability", since the federal entity is required to pay specified amounts over the agreement term.

Accordingly, at the beginning of 2013, the federal entity recognizes an asset and a liability related to the service concession arrangement when the operator acquires the asset as follows:

Description	Debit	Credit
Service Concession Asset	19,883,696	
Service Concession Liability		19,883,696

Second Step: Subsequent measurement of the asset and the liability

At the end of 2013, the federal entity recognizes the following entries:

1. Asset Depreciation



Example 32.3 - Recognition of a Service Concession Arrangement Transaction - Financial Liability Model

Description	Debit	Credit
Depreciation $\left(\frac{19,883,696}{8}\right)$	2,485,462	
Accumulated Depreciation - Service Concession Asset		2,485,462

2. Payment of specified amounts, reduction of liability and recording of finance charge and service component

The federal entity may develop a schedule for future payments and their allocation between finance charge and reduction of liability as follows:

Year	Annual Payments Related to the Asset	Finance Charge for the Period (8%)	Reduction of Liability	Outstanding Liability
Beginning of 2013	-	-	-	19,883,696
End of 2013	(1)4,980,000	(2)1,590,696	(3)3,389,304	(4)16,494,392
End of 2014	4,980,000	1,319,551	3,660,449	12,833,943
End of 2015	4,980,000	1,026,715	3,953,285	8,880,658
End of 2016	4,980,000	710,453	4,269,547	4,611,111
End of 2017	4,980,000	368,889	4,611,111	0

1. Total annual payments related to the asset component: $(430,000 - 15,000) \times 12$
2. Finance charge calculated based on the residual value of the liability and borrowing rate: $19,883,696 \times 8\%$
3. Allocation of payments between finance charge and reduction of liability $(4,980,000 - 1,590,696)$
4. Determining the residual value of liability at the end of the current year: $(19,883,696 - 3,389,304)$

Based on the information provided in the schedule, the following entries are made at the end of each fiscal period:

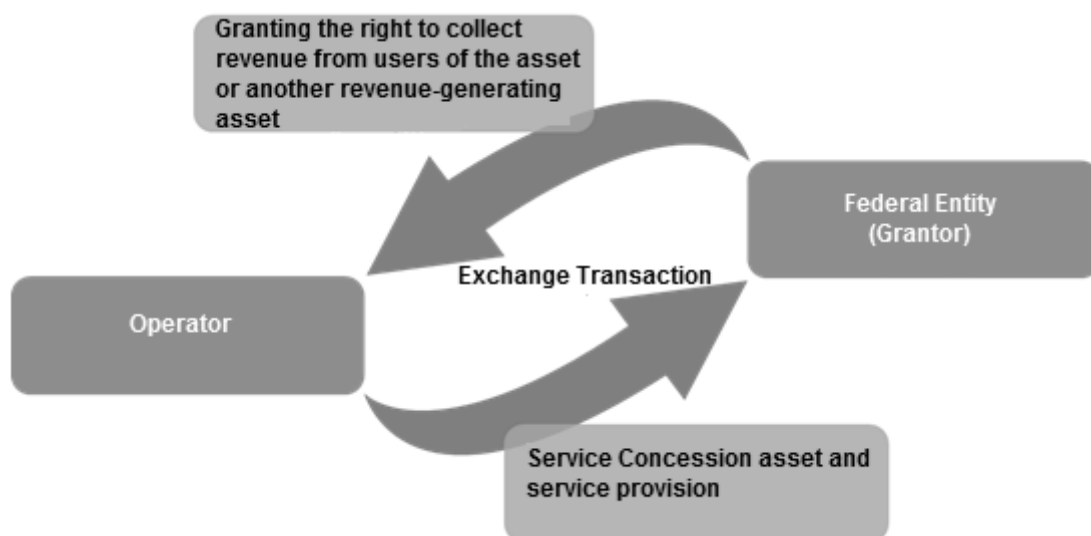
Description	Debit	Credit
Finance Charge - Expenses $(20,000,000 \times 8\%)$	1,590,696	
Expenses - Service Component of the arrangement $(15,000 \times 12)$	180,000	
Reduction of Liability (Determining the amount by allocating payments)	3,389,304	
Cash - Bank Account $(430,000 \times 12)$		5,160,000

Grant of Right to the Operator Model

Recognition

30. If an arrangement does not involve an unconditional obligation on the part of a federal entity (grantor) to pay cash or another financial asset to an operator for the construction, development, purchase or upgrade of a service concession asset, and the federal entity; under the arrangement; grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the federal entity shall recognize a liability as a deferred revenue arising from the exchange of the asset between the federal entity (grantor) and the operator.

31. A federal entity (grantor) shall recognize the liability (deferred revenue) and the asset arising from a service concession arrangement as arising from an exchange transaction. The liability (deferred revenue) shall be recognized by assessing the service concession asset arising from this transaction. The following diagram summarises the exchange transaction and related components.

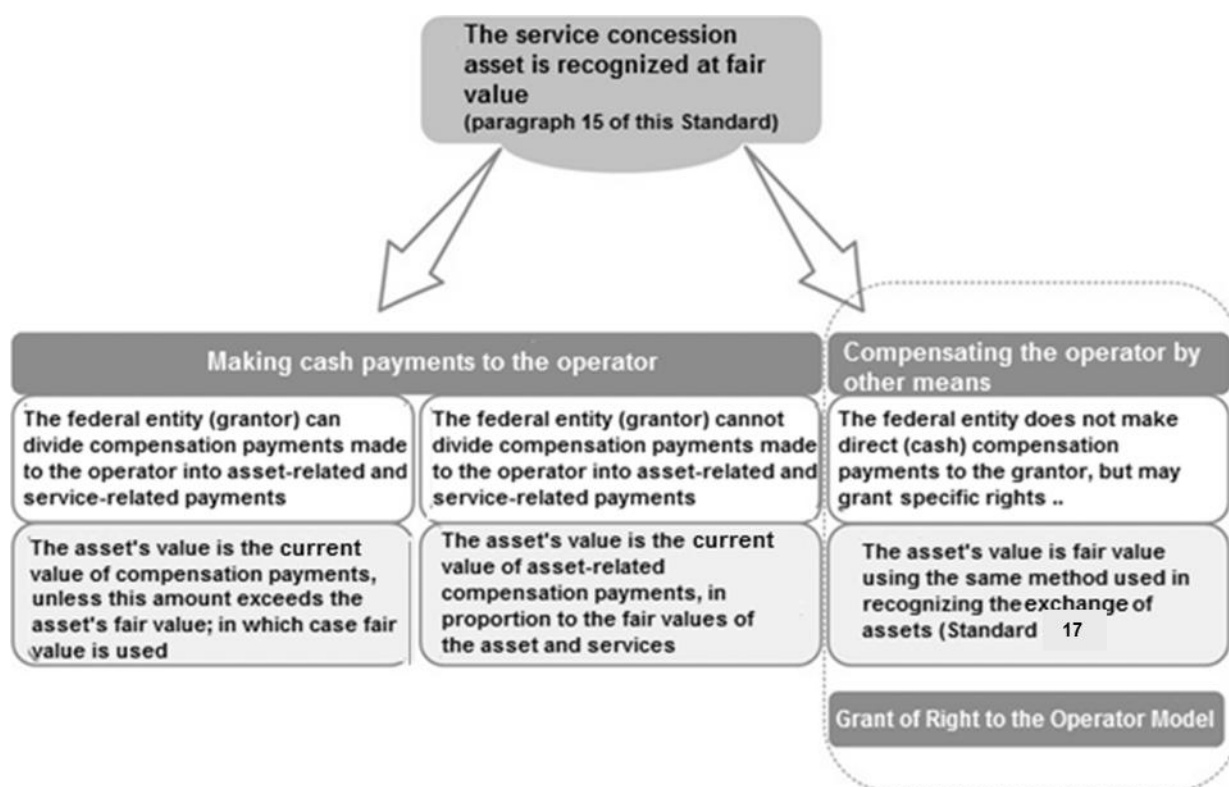


32. A federal entity shall grant said right for the term of the service concession arrangement. Accordingly, the federal entity shall, on initial recognition, record an asset against a liability (deferred revenue), provided that the revenue arising from recognition of the asset is recorded by reducing the liability (deferred revenue) based on the economic substance of the service concession arrangement.

Measurement



33. A federal entity shall measure the liability based on the value of the service concession asset with which the liability is associated. The asset is assessed by determining its fair value. The following diagram illustrates the basis for measuring the asset in the absence of payments from the federal entity (grantor), in which case it shall be considered an exchange transaction.



Example 32.4 - Recognition of a Service Concession Arrangement Transaction - Grant of Right to the Operator Model



- ✓ A federal entity (grantor) entered into a service concession arrangement with an establishment, under which the establishment (operator) is required to construct and operate an airport for 30 years, after which it shall transfer the airport (operation responsibility) to the grantor (the operator completed the construction of the airport on June 30, 2010 and the airport's useful life at that date was estimated to be 50 years).
- ✓ In addition, the federal entity agreed to grant the operator the right to collect the revenue generated by the airport to its benefit (e. g. Rent from stores or airline charges) during the training period as compensation for the costs of constructing and the asset and costs of services associated with operating the asset.
- ✓ When the construction of the airport was completed, total cost was estimated at AED 2 billion. All construction costs were verified by the federal entity's team responsible for monitoring construction works.

Example 32.4 - Recognition of a Service Concession Arrangement Transaction - Grant of Right to the Operator Model

- ✓ On commencement of airport operations, the operator earned / incurred the following operating revenues / costs:

Year	Total Revenue Earned	Total Airport Operating Costs	Net Revenue
2010 (6 months)	AED 330 million	AED 290 million	AED 40 million
2011	AED 740 million	AED 676 million	AED 64 million
2012	AED 790 million	AED 720 million	AED 70 million
2013	AED 810 million	AED 738 million	AED 72 million
2014	AED 920 million	AED 850 million	AED 70 million
2015	AED 925 million	AED 853 million	AED 72 million

First Step: Classifying the arrangement and determining the value of the asset and the liability on initial recognition

- Under the agreement, the operator will construct the asset. Therefore, the federal entity shall recognize the asset by determining its fair value.
- Since the federal entity will not make specified payments, but has rather granted the operator the right to earn revenue from operating the asset as compensation for the cost of constructing the asset and costs of related services, the asset's fair value is determined by considering it the result of an exchange transaction. The airport's fair value equals the costs verified by the construction monitoring team, which equal AED 2 billion.
- This arrangement belongs to the grant of right to the operator model, because the federal entity is not required to pay specified amounts but has rather granted the operator the right to collect revenue over the agreement term. The liability (deferred revenue) is recorded at the amount arising from the exchange transaction (the fair value of the asset received). The liability is reduced and revenue recorded consistently with relevant revenues collected by the operator.

Accordingly, on June 30, 2010, the federal entity's financial statements present the following balances:

- ✓ Service concession asset for the value of AED 2 billion
- ✓ Service concession liability (deferred revenue) for the same value; AED 2 billion

Second Step: Subsequent measurement of the asset and the liability

At the end of 2010, the federal entity recognizes the following entries:

1. Asset Depreciation

Description	Debit	Credit
Depreciation (6 months) $\left(\frac{2,000,000,000}{50}\right) \times \left(\frac{6}{12}\right)$	20,000,000	
Accumulated Depreciation - Service Concession Asset		20,000,000

Example 32.4 - Recognition of a Service Concession Arrangement Transaction - Grant of Right to the Operator Model**2. Reduction of liability and recording of revenue arising from an exchange transaction**

The federal entity reduces the liability on an annual basis in a manner that reflects the substance of the transaction. This amount (Deferred revenue) is reduced based on the value of revenue arising from the right granted to the operator which may be considered compensation for constructing the asset:

Based on the information provided in the schedule table of "Operating revenue / costs" at the end of each fiscal period, the liability is reduced as follows:

Description	Debit	Credit
Liability (Deferred revenue)	40,000,000	
Revenue		40,000,000

At the end of 2011, the federal entity recognizes the following entries:

1. Asset Depreciation

Description	Debit	Credit
Depreciation $\left(\frac{2,000,000,000}{50}\right)$	40,000,000	
Accumulated Depreciation - Service Concession Asset		40,000,000

2. Reduction of liability and recording of revenue arising from an exchange transaction

Description	Debit	Credit
Liability (Deferred Revenue)	64,000,000	
Revenue		64,000,000

Over the remainder of the training period, the federal entity continues to reduce the liability to zero (based on net revenue from operating the airport), and also continues to depreciate the airport over its useful life of 50 years (consistently with the requirements of FGAAS 17 "Property, Plant and Equipment").

Dividing the Arrangement

34. If a federal entity (grantor) pays an operator for the construction, development, purchase or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognized. The amount initially recognized for the total liability shall be the same amount as that specified for the value of the service concession asset.
35. A federal entity (grantor) shall reduce each part of the liability referred to in paragraph 34 in a manner that is consistent with the methods discussed in paragraphs 25 to 33.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets

- 
36. A federal entity (grantor) shall recognize other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" and FGAAS 28, FGAAS 30, and FGAAS 41 "Financial Instruments".

Other Revenues

- 
37. A federal entity (grantor) shall recognize revenues from a service concession arrangement, other than those discussed under the grant of right model and resulting deferred revenue, in accordance with FGAAS 9 "Revenue from Exchange Transactions".

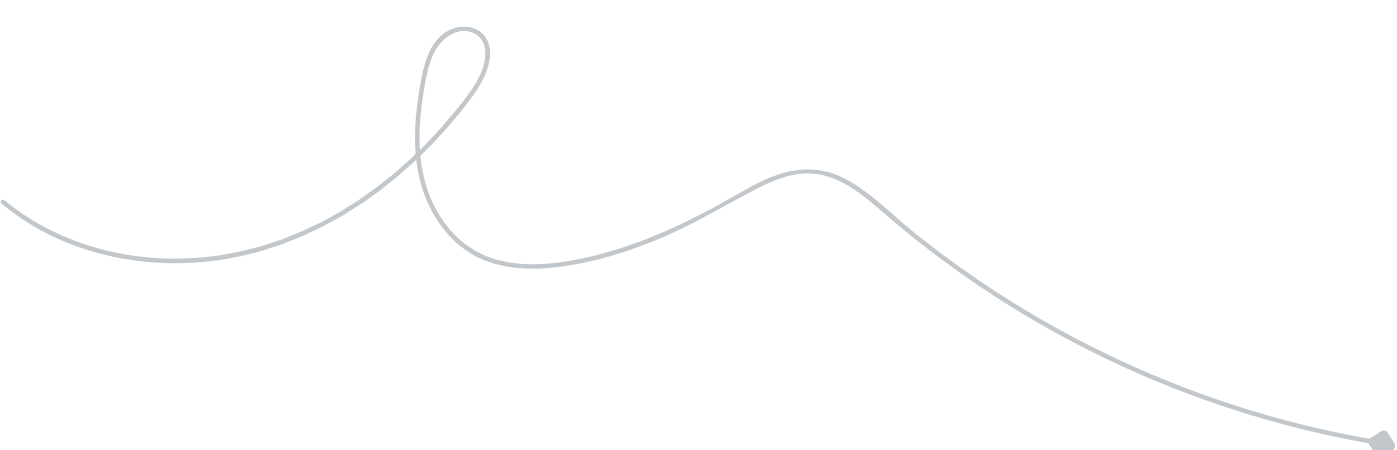
Disclosures

- 
38. A federal entity shall present the information related to a service concession arrangement in accordance with FGAAS 1 "Presentation of Financial Statements".

- 
39. A federal entity (grantor) shall disclose the following information related to a service concession arrangement in each reporting period:
- A. A description of the arrangement;
 - B. Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g. the concession term, re-pricing dates and the basis on which re-pricing or re-negotiation is determined);
 - C. The nature and extent (e.g., quantity, duration or amount, as appropriate) of:
 - ✓ Rights to use specified assets;
 - ✓ Rights to expect the operator to provide specified services related to the service concession arrangement;
 - ✓ Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;
 - ✓ Rights to receive specified assets at the end of the service concession arrangement;
 - ✓ Renewal and termination options;
 - ✓ Other rights and obligations (e.g., major examination of service concession assets);
 - ✓ Obligations to provide the operator with access to service concession assets or other revenue-generating assets;
 - D. Changes in the arrangement during the reporting period.

- 
40. A federal entity shall provide the above prescribed disclosures individually for each significant service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of

a similar nature (e.g. fee collection, telecommunications or water treatment services). A federal entity shall also disclose service concession assets by class of asset (e. g. roads, bridges or buildings).



Standard 26 - Impairment of Cash- generating Assets

Standard 26 - Impairment of Cash-generating Assets

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 26 (IPSAS 26) which prescribes how to identify and assess impairment of cash-generating assets. It is worth mentioning that certain text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

The Standard for Impairment of Cash-generating Assets - Table of Contents

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Objective



1. The objective of this Standard is to prescribe the procedures to be followed to determine whether a cash-generating asset is impaired and ensure that impairment losses are recognized. This Standard also specifies when a federal entity should reverse an impairment loss, and prescribes the necessary disclosures.
2. This Standard primarily addresses the following topics:
 - A. Identifying assets that may be impaired;
 - B. Identifying cash-generating assets;
 - C. Bases for measuring the recoverable amount and the various methods adopted for this purpose;
 - D. Impairment loss recognition and measurement methods;
 - E. Loss reversal cases and recognition methods;
 - F. Cash-generating units;
 - G. Presentation and disclosure requirements for impairment of cash-generating assets.

Scope



3. This Standard applies to federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto. This Standard addresses all aspects of accounting for impairment of cash-generating assets, excluding the following assets:
 - A. Inventory (FGAAS 12 "Inventory")
 - B. Assets arising from construction contracts (FGAAS 11 "Revenue from Construction Contracts")
 - C. Financial assets that are within the scope of FGAAS 41 "Financial Instruments"
 - D. Assets arising from employee benefits (FGAAS 39 "Employee Benefits")
 - E. Biological assets related to agricultural activity that are measured at fair value less costs to sell (FGAAS 27 "Agriculture")
 - F. Non-current assets (or disposal groups) classified as held for sale in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations; and
 - G. Other cash-generating assets the accounting requirements for impairment of which are included in another standard in the Manual of Federal Government Accrual Accounting Standards.

Identifying a Cash-generating Asset



4. Cash-generating assets are assets held for the purpose of generating a commercial return. An asset generates a commercial return when it is used in a manner consistent with that

adopted by the federal entity. Holding an asset to generate a “commercial return” indicates that a federal entity intends to:

- A. Generate positive cash inflows from that asset (or from the cash-generating unit of which the asset is a part - The definition of a cash-generating unit will be discussed later in this Standard); and
 - B. Earn a commercial return that affects the risks associated with holding the asset.
5. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular period. Conversely, an asset may be a non-cash-generating asset even though it may generate a commercial return during a particular period. Unless stated otherwise, references to “an asset” or “assets” in this Standard are references to a cash-generating “asset” or “assets”.
 6. There are a number of cases in which a federal entity may hold some assets with the primary objective of generating a commercial return, although the majority of its assets are not held for that purpose. Cash-generating assets of a federal entity may also operate independently of the non-cash-generating assets.



Example 26.1 - Differences in the Purpose for which Assets are Held

A hospital of the Ministry of Health may use a building for fee-paying patients. Therefore, said building is considered a cash-generating asset although most of the hospital's assets are assets that are not held for the purpose of generating a commercial return.



7. In certain cases, an asset may generate cash flows although it is primarily held for service delivery purposes. Therefore, such an asset shall be considered a non-cash generating asset and any impairment of said asset shall be treated in accordance with the requirements of FGAAS 21 “Impairment of Non-cash Generating assets”.



Example 26.2 - A Cash-generating Asset Primarily Held for Service Delivery

The Ministry of Health may operate a waste disposal plant to ensure the safe disposal of medical waste generated by public hospitals of the Ministry (as its main activity), but the plant also treats (as a secondary activity) a small amount of medical waste generated by other private hospitals on a commercial basis for a fee. In this case, cash-generating assets cannot be distinguished from non-cash generating assets because the primary objective of the plant is to provide services.

8. In other cases, an asset may generate cash flows and also be used for non-cash-generating purposes. The purpose of holding the asset and the extent to which it is held with the objective of generating a commercial return needs to be considered when determining the applicable accounting standard and whether it is (FGAAS 21 “Impairment of Non-cash Generating Assets”) or (FGAAS 26 “Impairment of Cash-generating Assets”).



Example 26.3 - A Cash-generating Asset Used for Non-cash Generating Purposes

A public hospital of the Ministry of Health has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for patients who cannot afford to pay fees or are covered by administrative exemption from payment. Patients from all wards jointly use all other hospital facilities.

9. In some cases, it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows associated with the asset. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that the federal entity should apply this Standard, rather than FGAAS 21 "Impairment of Non-cash Generating Assets". A federal entity should ensure consistency in selecting the Standard to apply with respect to impairment, based on estimates and professional judgment and in accordance with the definitions of cash-generating and non-cash generating assets.

For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. FGAAS 21 "Impairment of Non-cash Generating Assets" deals with the assessment of individual assets. Consequently, an entity applies this Standard to determine whether to impair goodwill.

Identifying an Asset that may be impaired

10. The standard requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit.



11. A federal entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the federal entity shall estimate the recoverable amount of the asset. The timing and steps involved in the impairment test that needs to be carried out during the fiscal period vary depending on the nature of the asset in question.
12. An asset is impaired when its carrying amount exceeds its recoverable amount. If there are any indications of impairment, a federal entity shall make a formal estimate of the recoverable amount. A federal entity shall not be required to make a formal estimate of the recoverable amount if there is no indication of an impairment loss.



13. Irrespective of whether there is any indication of impairment, a federal entity shall also:
- ✓ Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided that it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if an intangible asset was initially recognized during the current reporting period, that

intangible asset shall be tested for impairment before the end of the current reporting period.

- ✓ Test goodwill acquired in an acquisition for impairment annually in accordance with paragraphs 80-91.

14. This Standard requires intangible assets that are not yet available for use to be tested for impairment annually in order to determine their ability to generate sufficient future economic benefits or service potential to recover their carrying amount. This test is usually subject to greater uncertainty before the asset is available for use than after it is available for use.



15. When assessing whether there is any indication that an asset may be impaired, a federal entity shall consider, as a minimum, the following indications:

Information from External Sources:

- A. Significant decline in the market value of an asset has occurred during the period beyond what would be expected as a result of the passage of time or normal use;
- B. Significant changes with an adverse effect on the federal entity have taken place during the period, or will take place in the near future in the technological, commercial, economic or legal environment in which the federal entity operates or in the market associated with the asset;
- C. Market interest rates or other market rates of return on investment have increased during the period and said increase is likely to affect the discount rate used in calculating an asset's value is use and substantially decrease its recoverable amount;
- D. Any other indications.



Example 26.4 - Examples of Information from External Sources

Latest modern medical and technological studies lead to the development of a new technology used in imaging equipment for early detection of tumors and malignant diseases. The studies also indicated that old technology has adverse effects on patients.

After reviewing these studies, the Ministry of Health decided that existing medical equipment need to be replaced by new medical imaging equipment that would achieve their intended objectives without adversely affecting patients. This technological advance is an effective external factor that indicates a decrease in the recoverable amount of medical equipment and, therefore, impairment of said assets.

Information from Internal Sources

- A. Evidence is available of obsolescence or physical damage of an asset;
- B. Significant changes with an adverse effect have taken place, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used;

- C. Plans to discontinue the use, or dispose, of the asset or a decision to cease constructing the asset before it is complete or ready for use;
- D. Evidence is available indicating that the economic performance of the asset has deteriorated;
- E. Any other indications.

Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations.



Example 26.5 - Examples of Information from Internal Sources

- A. Subsequent cash needs for operating or maintaining an asset that are significantly higher than the cash flows estimated in a federal entity's budget.
- B. Actual net cash flows or surplus or deficit flowing from the asset that are significantly worse than those estimated in a federal entity's budget.
- C. A significant decline in budgeted net cash flows or surplus, or a significant increase in budgeted loss, flowing from the asset;
- D. When the aggregate of current period amounts and a federal entity's budgeted future amounts suggest a deficit, or when net cash flows have an adverse effect on the entity.

16. With the exception of cases described in paragraph 13, and after considering an asset's materiality, it is not always necessary to reassess its recoverable amount.



Example 26.6 - Considering Materiality when Estimating the Recoverable Amount

Previous calculations of the Ministry of Energy indicate that the recoverable amount of a cash-generating machine used thereby is significantly higher than its carrying amount. Therefore, the Ministry does not need to re-estimate the recoverable amount of said machine so long as the Ministry is certain that there has not been any effective events or information from internal or external sources that would change such significant difference between the recoverable amount and carrying amount.



Example 26.7 - Considering Materiality when Estimating the Recoverable Amount

If market interest rates or other market rates of return on investments have increased, the Ministry of Infrastructure, for instance, is not required to make a formal estimate of the recoverable amount of its cash-generating asset in the following cases:

- A. If the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long useful life.
- B. If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates, but previous sensitivity analysis of recoverable amount shows that:
 - ✓ It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase;
 - ✓ The decrease in recoverable amount is unlikely to result in a material impairment loss for the asset.

17. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring Recoverable Amount

18. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. If, when calculating the recoverable amount, the fair value less costs to sell; or the value in use; turns out to be higher than the asset's carrying amount, then the asset's value is not impaired. Therefore, it is not always necessary to determine both amounts (i.e. the fair value less costs to sell and the value in use) if either of these amounts exceeds the asset's carrying amount).
19. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. However, it will not be possible to determine fair value less costs to sell if there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in a commercial transaction between knowledgeable and willing parties. In this case, the federal entity may use the asset's value in use as its recoverable amount.
20. If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal or sale, because the value in use of an asset held for sale or disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuous use of the asset until its disposal are likely to be negligible.



21. Recoverable amount shall be determined for an individual asset or cash-generating unit if the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. However, it is not necessary to determine the recoverable amount of a cash-generating unit in any of the following two cases:
 - A. If the asset's fair value less costs to sell is higher than its carrying amount; or
 - B. If the asset is a part of a cash-generating unit, but is capable of generating cash flows individually, in which case the asset's value in use can be estimated to be close from its fair value less costs to sell; which is also determinable.
22. Estimates, averages and computational shortcuts may sometimes provide reasonable approximations of the detailed computations for determining an asset's fair value less costs to sell or value in use.

Measuring the Recoverable Amount of an Intangible Asset with an Indefinite Useful Life



23. A federal entity shall test an intangible asset with an indefinite useful life for impairment annually as prescribed in paragraphs 13 and 14 of this Standard. However, a federal entity may use detailed calculations of an asset's recoverable amount in the preceding period in the impairment test in the current period; provided that all the following conditions are met:
 - A. If the intangible asset does not generate cash inflows that are largely independent of cash inflows from other assets or groups of assets, it shall be tested for impairment as part of the cash-generating unit to which it belongs, as the assets and liabilities making up that unit have not changed significantly since the most recent calculation of the recoverable amount;
 - B. If the most recent calculation of the recoverable amount resulted in an amount that substantially exceeded the asset's carrying amount; and
 - C. If, after analysing events that have occurred and circumstances that have changed since the most recent calculation of the recoverable amount, the likelihood that the current recoverable amount would be less than the asset's carrying amount is remote.

Fair value less Costs to Sell



24. If there is a need to determine fair value less costs to sell, one of the following methods should be used (arranged in order of preference):
 - A. If there is a binding sale agreement in a commercial transaction, fair value less costs to sell shall be the price under said agreement less costs of disposal;
 - B. If there is no binding agreement but there is an active market for this type of assets, fair value less costs to sell shall be the market price less costs of disposal. Market price shall be the current bid price, if available. Otherwise, the price shall be determined based on the most recent transaction in similar economic circumstances.

- C. If there is no binding sale agreement or active market, fair value less costs to sell shall be the best estimate of the asset's sale price less costs of disposal. An estimate can be obtained, for example, from external appraisers or by using the market price of a similar asset for which there is an active market.
- D. If there is no basis for making a reliable estimation of fair value less costs to sell, the value in use shall be used as the asset's recoverable amount.
25. Costs of disposal are direct incremental costs only (and not existing costs or indirect production costs). Examples of such costs are legal fees, costs of removing the asset, direct incremental costs to bring an asset into condition for its sale, commissions payable to agents and costs specified in a sale contract. End-of-service benefits and costs associated with reducing or reorganising a business following the disposal of an asset are not costs of disposal of the asset, nor are insurance premiums, guarantee costs, electricity costs and other costs necessary to protect and maintain an asset.
26. Costs of disposal of an asset or cash-generating unit are sometimes regarded as a liability of the buyer (such as the obligation to restore a site to its original condition). Therefore, costs of disposal of an asset are deducted from the fair value less costs to sell only if the buyer in the sale transaction is responsible for such costs in the future. However, if the federal entity is responsible for such costs on sale of the asset, said costs shall not be deducted from fair value less costs to sell.



Example 26.8 - Determining Fair Value Less Costs to Sell

A federal entity owns a building that is used to generate a commercial return. The entity purchased said building for the cost of AED 2,500,000 on September 30, 2000 and its useful life at that date was estimated to be 30 years. The Entity intends to use this asset for this purpose until the end of its useful life.

On June 30, 2015, the federal entity corresponded with the building management team to notify them of the possibility of ceasing to use the building due to a planned disposal of this asset by the beginning of January 2016.

The federal entity collected the following information in order to determine fair value less costs to sell:

A federal entity owns a building that is used to generate a commercial return. The entity purchased said building for the cost of AED 2,500,000 on September 30, 2000 and its useful life at that date was estimated to be 30 years. The Entity intends to use this asset for this purpose until the end of its useful life.

On June 30, 2015, the federal entity corresponded with the building management team to notify them of the possibility of ceasing to use the building due to a planned disposal of this asset by the beginning of January 2016.

The federal entity collected the following information in order to determine fair value less costs to sell:

- ✓ Based on information from UAE real estate market, the estimated sale price of a building with similar specifications is AED 1,300,000;

Example 26.8 - Determining Fair Value Less Costs to Sell

- ✓ In order to complete the sale, the federal entity needs to issue a certificate of compliance with safety standards which, together with the examination involved, will cost AED 15,000;
- ✓ The federal entity will perform some cleaning and minor maintenance for the building so that it becomes ready for sale. The cost of cleaning and maintenance is AED 10,000;
- ✓ Due to the sale of the building, some employees will be transferred and others dismissed, which will result in AED 60,000 in staff-related costs.

Accordingly, the federal entity determines fair value less costs to sell as follows:

Market value of the asset	AED 1,300,000
Safety examination and certificate costs	AED (15,000)
Cleaning and maintenance costs	AED (10,000)
Staff-related costs	-
Building's fair value less costs to sell	AED 1,275,000

Note: The federal entity does not regard staff-related costs (end-of-service and reorganisation costs) as incremental costs of disposal of the building and, therefore, does not include these costs in the calculation of the building's fair value less costs to sell.

Value in Use

27. To measure the value in use, a federal entity determines estimated cash inflows and outflows from continuous use of the asset, together with net proceeds from final disposal, deducted using the appropriate discount rate.



28. The following elements shall be reflected in the calculation of an asset's value in use:

- A. An estimate of expected future cash flows from the asset;
- B. The time value of money, represented by the current market risk-free rate of interest;
- C. Possible variations in the amount or timing of expected future cash flows;
- D. The price for bearing the uncertainty inherent in the asset;
- E. Other factors, such as illiquidity that market participants may reflect in pricing the expected future cash flows from the asset.

29. The elements identified in paragraph 28 (C), (D) and (E) can be reflected either as adjustments to future cash flows or as adjustments to the discount rate.

Discount Rate

30. Estimated future cash flows shall be deducted prior to calculating the tax rate (as applicable) which reflects the estimates of the current market value of money (represented by the current risk-free interest rate), and the risks specific to the asset for which future cash flow estimates have not been adjusted.

31. The expected market rate of return is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset or cash-generating unit under review. This rate shall be independent of the asset financing method and shall be estimated based on current market transactions for similar assets or from "weighted average cost of capital" for a listed entity with a similar asset or asset portfolio in terms of service potential and risks of the asset under review. The discount rate used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted in order to avoid double-counting the effect of some assumptions.



32. When an asset-specific rate is not directly available from the market, a federal entity shall use alternatives to estimate the appropriate discount rate while considering:

- A. The time value of money until the end of the asset's useful life;
- B. Expectations regarding possible variations in the amount or timing of future cash flows (if the effect is not adjusted in future economic benefits);
- C. The price for bearing the uncertainty inherent in the asset; (if the effect is not adjusted in future economic benefits)

- D. Other factors that are sometimes not specified (such as illiquidity) and which market participants may reflect in pricing the expected future cash flows from the asset (if the effect is not adjusted in future economic benefits).



33. A federal entity may consider the following factors when determining the discount rate:

- A. The weighted average cost of capital (as applicable) determined using techniques such as the Capital Asset Pricing Model;
- B. The entity's incremental borrowing rate; and
- C. Other market borrowing rates.

34. Discount rates should be adjusted to:

- A. Reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and
- B. Exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted. Consideration should also be given to risks (such as price risk, currency risk and other risks).

35. Normally, a single discount rate is used for the estimate of an asset's value in use. However, different discount rates are used for different future periods where value in use is sensitive to different periods (due to difference in risks for different periods) or to the structure of interest rates.

Bases for Estimates of Future Cash Flows



36. When measuring the value in use, a federal entity shall make sure that it:

- A. Bases cash flow projections on reasonable and supportable assumptions that represent best estimate of economic conditions that will exist over the remaining useful life of the asset, while giving greater weight and significance to external evidence;
- B. Bases cash flow projections on the most recent budgets / financial forecasts approved by the relevant management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets / forecasts shall cover a maximum period of five years, unless a longer period can be justified; and
- C. Estimates cash flow projections beyond the period covered by the most recent budgets / forecasts by arriving at the projections based on the budgets / forecasts using a steady or declining growth rate for subsequent periods, unless an increasing growth rate can be justified. The growth rate used shall not exceed the long-term growth rate used for the products, industries or jurisdiction in which the federal entity operates, or for the market in which the asset is used, unless a higher rate can be justified. Sometimes, where appropriate, the growth rate may be zero or of a negative value.

37. A federal entity's management shall assess the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, and represent management's best estimate of economic conditions that will exist over the remaining useful life of the asset.

Composition of Estimates of Future Cash Flows



38. Estimates of cash flows shall include:

- A. Projections of cash inflows from the continuous use of the asset;
- B. Projections of cash outflows that are incurred to generate the cash inflows from continuous use of the asset (including cash outflows to prepare the asset for use and future fixed expenses relating to the asset) and are directly attributed or allocated on a reasonable and consistent basis, to the asset; and
- C. Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

39. Estimates of future cash flows and the discount rate shall reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows shall be estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows shall be estimated in real terms and shall include future specific price increases or decreases.

40. Projections of cash outflows shall include cash flows for the day-to-day servicing of the asset as well as future overheads that can be attributed directly to servicing the asset, or allocated on a reasonable and consistent basis to the use of the asset.

41. When estimating an asset's future cash flows, a federal entity shall consider any cash outflows expected to be incurred before the asset is ready for use or sale, as the asset's current value does not include such future cash flows.



Example 26.9 Expected Future Cash Outflows

The Federal Customs Authority has a new building under construction to be designated for collecting custom duties. Since the asset is still under construction, the Authority shall include expected future cash flows to complete the construction of its new building in the projections of cash outflows; when calculating the value in use.



42. Estimates of cash flows shall not include:

- A. Cash inflows from assets that generate cash flows that are largely independent of the cash inflows from the asset under review;

- B. Cash outflows that relate to obligations that have been recognized in financial statements as liabilities;
- C. Cash inflows or outflows that are expected to arise from unconfirmed future restructurings;
- D. Cash flows related to improving or enhancing the asset's performance.
- E. Cash inflows or outflows from financing activities;
- F. Tax receipts or payments (as applicable and necessary).



Example 26.10 - Exclusions from Estimates of Cash Flows

When calculating the value in use of a cash-generating asset, a federal entity shall exclude:

- ✓ Cash flows related to receivables;
- ✓ Cash flows related to payables to suppliers or provisions;
- ✓ Cash flows related to pension.

43. Future cash flows shall be estimated based on the asset's current condition. Therefore, the value in use of an asset shall not reflect:
- A. Cash outflows or related cost savings (for example, reductions in staff expenses) or benefits that are expected to arise from a future restructuring to which the federal entity is not yet committed; or
 - B. Cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.
44. A restructuring is a program that is planned and controlled by a federal entity's management, and fundamentally changes the scope of the federal entity's activities or the manner in which those activities are carried out. FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" clarifies when a federal entity is committed to restructuring.
45. When a federal entity becomes committed to restructuring, some assets are likely to be affected by this restructuring such that estimates of their future cash flows have the following characteristics:
- A. Estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring based on the most recent budgets or forecasts approved by management.
 - B. Estimates of future cash outflows for the restructuring include the provision for restructuring as prescribed in FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets".
46. A federal entity shall calculate future cash inflows expected to arise from the increase in economic benefits or service potential only when it incurs cash outflows in enhancing or improving asset's performance.

47. Estimates of future cash flows shall include future cash outflows necessary to maintain the level of economic benefits or service potential expected to be generated from the asset in its current condition. When a cash-generating unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the cash-generating unit, the replacement of assets with shorter useful lives shall be considered to be part of the day-to-day servicing of this unit when estimating the future cash flows associated with this unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter useful lives shall be considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.
48. In estimated future cash flows, a federal entity shall reflect assumptions that are consistent with the way the discount rate is determined to ensure that the effect of said assumptions is not ignored or double-counted. Since the time value of money is determined by discounting the estimated future cash flows, these cash flows shall exclude cash inflows or outflows from financing activities.
49. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be determined in a similar way to an asset's fair value less costs to sell, except that, in estimating those net cash flows a federal entity shall:
- A. Use the prices prevailing at the date of the estimate for similar assets that have reached the end of their useful lives and have operated under conditions similar to those in which the asset will be used; and
 - B. Adjust those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuous use and the discount rate exclude the effect of general inflation, the federal entity shall also exclude this effect from the estimate of net cash flows on disposal.
50. The estimate of net cash flows to be received (or paid) from the disposal of an asset at the end of its useful life shall be the amount that a federal entity expects to obtain from the disposal of the asset in commercial transaction between knowledgeable and willing parties, after deducting the estimated costs of disposal.
51. Future cash flows of an asset shall be estimated in the currency in which they will be generated, and then discounted using a discount rate appropriate for that currency. Therefore, if said future cash flows are in a currency other than AED, a federal entity shall use the spot exchange rate at the date of the value in use calculation.

Using Current Value Calculation Approaches to Measure the Value in Use



52. When measuring current value, a federal entity shall consider paragraph (38) which addresses the composition of cash flows and paragraph (32) which deals with discount rate estimation.
53. The current value can be calculated using any of the following two approaches:
- A. The traditional current value calculation approach; or

B. The expected cash flow approach.

54. Whichever approach is adopted, the main objective of calculating the current value is to estimate expected future cash flows taking into account all adjustments that need to be considered if they affect the amounts or timing of said cash flows in a manner that reflects the weighted average of possible outcomes.
55. The methods used to estimate future cash flows and interest rates vary from one situation to another depending on the circumstances surrounding the asset. However, the following general principles are the main reference for measuring current value of assets, irrespective of the approach adopted:
- A. Discount rates should reflect assumptions that are consistent with key assumptions inherent in the estimated cash flows. Otherwise, the effect of some assumptions may be double-counted or ignored.



Example 26.11 - Discount Rate and Cash Flow Assumptions

When measuring the current value of a federal entity's cash-generating unit, the entity shall, in determining future cash flows attributable to said cash-generating unit, exclude interest costs or interest profits associated with the unit, as the adopted discount rate reflects said assumptions (i.e. interest costs or profits). Therefore, including said costs or profits in future cash flows will cause the effect of interest to be double-counted.

- B. Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset to enable the calculation of current value of assets in the most transparent and clear manner.
- C. Estimated cash flows or discount rates should reflect the weighted average of the range of possible outcomes rather than the minimum or maximum possible amount.
- D. A federal entity shall consider professional judgment when measuring current value.

Traditional Current Value Measurement Approach



56. The traditional current value measurement approaches largely emphasise on selecting a discount rate. This approach assumes that a single discount rate is the rate commensurate with risks such that it considers all expectations of future cash flows and the appropriate risk premium.
57. The traditional approach is relatively easy to apply in certain cases when a cash-generating asset has similar assets in the market.



58. The traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market or similar assets exist. To be able to adopt the traditional approach, the appropriate discount rate needs to be determined. Therefore, when measuring the current value, a federal entity shall:
- A. Identify the set of cash flows that will be discounted;
- B. Identify another asset in the market that appears to have similar cash flow characteristics;

- C. Compare both cash flow sets (those attributable to the asset being measured and those attributable to the similar asset); to ensure that they are similar (e. g. whether the cash flows in either or both sets are contractual or estimated);
- D. Evaluate the different elements of both assets;
- E. Assess the impact of change in economic conditions and analyse its reflection in the cash flows attributable to both the asset being measured and the similar asset, in addition to analysing the similarities and differences between said cash flows.

Expected Cash Flow Approach



59. The expected cash flow approach is, in some cases, a more effective measurement tool than the traditional approach. The expected cash flow approach uses all expectations about possible cash flows instead of the single most likely cash flow. Therefore, the expected cash flow approach differs from the traditional approach by:
- A. Focusing on direct analysis of the cash flows of an asset; and
 - B. Focusing on more explicit statements of the assumptions used in the measurement.
60. The expected cash flow approach also allows use of current value techniques when the timing of cash flows is uncertain.



Example 26.12 - Calculating the Current Value of Probable Cash Flows

A cash flow of AED 1,000 may be received in one, two or three years with probabilities of 10, 60 and 30 percent respectively. The example below shows the calculation of expected current value adopted by the relevant federal entity using the expected cash flow approach:

		Expected Cash Flow Approach	Traditional Approach
Current value of AED 1,000 in one year (Assuming a discount rate of 5%) $\frac{1000}{1.05}$	952(A)		---
Probability	(A) x%10	95	
Current value of AED 1,000 in two years (Assuming a discount rate of 5.25%) $\frac{1000}{1.0525^2}$	903(B)		903*
Probability	(B) x%60	542	
Current value of AED 1,000 in three years (Assuming a discount rate of 5.5%) $\frac{1000}{1.055^3}$	852(C)		---

Example 26.12 - Calculating the Current Value of Probable Cash Flows

Probability	(C) x %30	255	
Expected current value		892	903

*The traditional approach uses the single most likely cash flow technique (60% probability) because the discount rate used in this approach does not reflect the uncertainty attributable to the time factor.

As shown in this example, expected current value calculated using the expected cash flow approach (AED 892) differs from that calculated using the traditional approach (AED 903 based on the cash flow probability - 60%).

Recognising and Measuring an Impairment Loss

61. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced by the difference between said amounts. Said reduction shall be recognized in the statement of financial performance as a direct impairment loss.
62. When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, a federal entity shall not recognize a liability unless that is required by another FGAAS.
63. After the recognition of an impairment loss of an asset, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount less its residual value (if any) over its remaining useful life.

**Example 26.13 - Recognition of Impairment Losses**

A federal entity has a building that is used for the purpose of generating a commercial return. On September 30, 2009, the building's carrying amount was AED 22,500,000 (Purchase date is March 31, 2002, purchase cost is AED 30 million, estimated useful life at the date of purchase is 30 years). During that period, the global financial crisis affected real estate prices, which provided a clear indicator of impairment of this building and, therefore, the need to estimate its recoverable amount.

Fair value less costs to sell was estimated at AED 18,000,000, and value in use was estimated at AED 17,500,000.

At that date, the remaining useful life of the building was 22.5 years.

First Step - Determining the recoverable amount

The recoverable amount is the higher of:

- ✓ Fair value less costs to sell: AED 18,000,000;
- ✓ Value in use: AED 17,500,000.

Therefore, the asset's recoverable amount is AED 18,000,000.

Second Step- Recognising and measuring impairment of the asset

Example 26.13 - Recognition of Impairment Losses

If the asset's carrying amount is higher than its recoverable amount, the federal entity should reduce the asset's value by the difference between the two amounts.

Therefore, the impairment of the building is 22,500,000 - 18,000,000 = AED 4,500,000.

Accordingly, the federal entity makes the following record:

Description	Debit	Credit
Expenses / Impairment Loss	4,500,000	
Provision for Accumulated Impairment		4,500,000

Note, during subsequent periods, the federal entity uses the impaired asset value to calculate depreciation over the remaining useful life of the asset (building).

Depreciation for the period from October 1, 2009 to December 31, 2009 is recorded as follows:

Description	Debit	Credit
Expenses / Depreciation of a Building $\left(\frac{18,000,000}{22.5}\right) \times \left(\frac{3}{12}\right)$	200,000	
Accumulated Depreciation		200,000

Cash-generating Units

Identifying the Cash-generating Unit to which an Asset Belongs

64. It may be impossible to assess an individual asset in terms of impairment, because an asset, in some cases, generates cash flows in combination with other assets. Therefore, assets are divided into groups such that a cash-generating unit is identified as the smallest group of assets that include the asset in question and generate cash flows that are largely independent of the cash inflows from other assets or groups of assets (e. g. a station or division). Such a group is known as a cash-generating unit.

65. Identifying a cash-generating unit requires professional judgment. When determining whether cash flows from assets or cash-generating units are largely independent of cash inflows from other assets or cash-generating units, various factors should be considered; including how management monitors operations and makes decisions about continuing or disposing of assets and/or operations. In all cases, identifying independent cash inflows is the main step to be considered.



66. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a federal entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).



67. The recoverable amount of an individual asset cannot be determined if:

- A. A federal entity cannot estimate an asset's value to be close to its fair value less costs to sell (for example, when the future cash flows from continuous use of the asset cannot be estimated to be negligible);
- B. The asset does not generate cash inflows that are largely independent of those derived from other assets and is not capable of generating cash flows individually.

In such cases, the value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

68. Cash inflows are inflows of cash and cash equivalents received from third parties. In determining whether cash inflows from an asset (or group of assets) are largely independent of cash inflows from other assets (or groups of assets), a federal entity considers various factors, including:

- A. How management monitors the federal entity's operations (such as by production lines, businesses, individual locations, regions and emirates); or
- B. Makes decisions about continuing or disposing of the federal entity's operations and assets.

69. When an individual operation generates returns that are largely independent of other operation within a group, said operation shall be separate from the cash-generating unit. This shall apply even if the operation is part of an overall regional strategy.



Example 26.14 - Independent Cash Inflows

The Ministry of Education may notice that each of its schools has a bookshop providing books and stationery for a fee and, therefore, has independent cash flows (in the form of independent cash-generating units). This fact is emphasised more than the fact that the group of schools is managed at Ministry of Education level which may imply that this group of schools constitutes a cash-generating unit.

70. When determining whether a group of assets is a cash-generating unit, focus should be on independent cash inflows, rather than net cash flows. Therefore, cash outflows are irrelevant to this determination.

**Example 26.15 - Identifying Cash Flows Attributable to a Cash-generating Asset**

An individual retail station of a federal entity generates cash inflows that are largely independent of other retail stations in the same location, although all retail stations in that location share the same infrastructure, human resources, marketing activities and other operating expenses.

In this case, when determining whether this retail station constitutes a cash-generating unit, focus should be on independent cash inflows from the retail station; rather than cash outflows attributable to the above mentioned operating expenses.



71. If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the input is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, a federal entity shall use management's best estimate of future price(s) that could be achieved in commercial transactions when estimating:
- A. The future cash inflows used to determine the value in use of the asset or cash-generating unit; and
 - B. The future cash outflows used to determine the value in use of other assets or cash-generating units that are affected by the internal transfer pricing.
72. In cases where all or part of the output produced by an asset or a group of assets is used by other units of a federal entity, this asset or group of assets shall constitute a separate cash-generating unit if the federal entity could sell the output in an active market. This is because the asset or group of assets could generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If a federal entity uses information based on budgets / financial forecasts that relate to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, the federal entity shall adjust this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in a similar commercial transactions.
73. A federal entity shall identify cash-generating units consistently from period to period for the same asset or types of assets, unless a change is necessary and justified.



Example 26.16 - Changes in the Components of a Cash-generating Unit

If a federal entity determines that an asset belongs to a cash-generating unit other than the one in prior periods, or that the types of assets grouped in the asset's cash-generating unit have changed, the entity should provide the necessary disclosures which may include recognising or reversing the impairment loss of the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash-generating Unit

74. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use.
75. A federal entity shall determine the carrying amount of a cash-generating unit on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.
76. The carrying amount of a cash-generating unit shall include the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use. Liabilities recognized by a federal entity shall not be included in the carrying amount of a cash-generating unit, unless it is impossible to determine the recoverable amount of the cash-generating unit without consideration of said liabilities.
77. It may be necessary to consider some recognized liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit requires the buyer to recognize the liability, in which case the fair value less costs to sell (or the estimated cash flow from disposal) of the cash-generating unit shall be the estimated selling price for the assets of the cash-generating unit and the liability associated with it, less the costs of disposal. To ensure an effective comparison between the carrying amount of the cash-generating unit and its recoverable amount, the federal entity shall deduct the carrying amount as a liability from both the value in use and carrying amount of the cash-generating unit.
78. Both the fair value less costs to sell and the value in use of a cash-generating unit shall be determined in a manner that excludes cash flows associated with assets that are not part of the cash-generating unit and recognized liabilities.
79. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate, or are used to generate, the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill.
80. For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of:

- A. Assets that are not part of the cash-generating unit (for example, receivables or other financial assets); or
- B. Liabilities that have been recognized (for example, payables, pensions and other provisions).

In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Goodwill

Allocating goodwill to cash-generating units



81. For the purpose of impairment testing, goodwill acquired in an acquisition shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units or groups of units. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, the acquirer shall be considered as the cash-generating unit. Except where goodwill relates to the acquisition of a non-cash-generating operation, each unit or group of units to which the goodwill is so allocated shall:
- A. Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
 - B. Not be larger than a segment as defined by FGAAS 18 "Segment Reporting".
82. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. Goodwill does not generate cash flows, or reductions in net cash outflows, independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated.
83. Applying the requirements in paragraph 80 results in goodwill being tested for impairment at a level that reflects the way a federal entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.
84. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with FGAAS 4 "The Effects of Changes in Foreign Exchange Rates" for the purpose of measuring foreign currency gains and losses. For example, if a federal entity is required by FGAAS 4 "The Effects of Changes in Foreign Exchange Rates" to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill

for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

85. If the initial allocation of goodwill acquired in an acquisition cannot be completed before the end of the annual period in which the acquisition is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.
86. If goodwill has been allocated to a cash-generating unit and the federal entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:
- A. Included in the carrying amount of the operation when determining the gain or loss on disposal; and
 - B. Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the federal entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.
87. If a federal entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the federal entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.

Testing cash-generating units with goodwill for impairment



88. When goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 92.
89. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the federal entity shall recognize the impairment loss in accordance with paragraph 92.

Timing of impairment tests



90. The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an acquisition during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

91. If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.
92. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:
 - A. The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
 - B. The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
 - C. Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

Impairment Loss of a Cash-generating Unit



93. An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units) in the following order:
 - A. First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
 - B. Then, to the other assets of the unit (group of units) on a pro rata basis, based on the carrying amount of each asset in the unit.

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in the statement of financial performance of the period.

In allocating an impairment loss to assets, a federal entity shall ensure not to reduce the carrying amount of an asset below the highest of:

- A. The asset's fair value less costs to sell (if determinable);
 - B. The asset's value in use (if determinable); and
 - C. Zero.
94. A cash-generating unit that is tested for impairment sometimes includes a non-cash generating asset. Therefore, when a non-cash generating asset contributes to a cash-

generating unit, a proportion of the carrying amount of said non-cash generating asset shall be assigned to the carrying amount of the cash-generating unit before estimating the recoverable amount of the cash-generating unit. This proportion shall reflect the extent to which the service potential of the non-cash generating assets contributes to the cash-generating unit.

95. With respect to the carrying amount of the non-cash generating asset, the federal entity shall reflect any impairment losses in accordance with FGAAS 21 "Impairment of Non-cash Generating Assets".
96. Sometimes, a federal entity cannot determine the recoverable amount of an individual asset as explained in paragraph 77. Therefore, the federal entity:
 - A. Shall recognize an impairment loss for the asset if its carrying amount is greater than the higher of its fair value less costs to sell and the results of the allocation procedures described in paragraphs 91 and 92.
 - B. Shall not recognize an impairment loss for the asset if the related cash-generating unit is not impaired, even if the asset's fair value less costs to sell is less than its carrying amount.

Reversing an Impairment Loss



97. A federal entity shall, at each reporting date, assess whether there is any indication that an impairment loss recognized in prior periods for an asset or cash-generating unit may no longer exist or may have decreased. If any such indication exists, the federal entity shall estimate the recoverable amount of that asset or cash-generating unit.



98. When assessing the possibility of reversing an impairment loss recognized in prior periods, a federal entity shall consider various indications. Therefore, the federal entity shall, as a minimum, consider the following indications:

Information from External Sources:

- A. The market value of the asset or cash-generating unit has increased significantly during the period;
- B. Significant changes with a positive or favorable effect on the federal entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the federal entity operates or in the market associated with the asset or cash-generating unit;
- C. Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the value in use of the asset or unit and substantially increase the recoverable amount of the asset or unit.

Information from Internal sources

- A. Significant changes with a positive effect on the federal entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, the asset or cash-generating unit is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the performance of the asset or cash-generating unit or restructure the operation to which the asset or cash-generating unit belongs;
- B. A decision to resume construction of the asset that was previously halted before it was completed or ready for use;
- C. Evidence is available from internal reports indicating that the performance of the asset or cash-generating unit is, or will be, better than expected.

99. If there is an indication of the possibility of reversing an impairment loss, a federal entity shall consider whether there is a need to review and adjust the remaining useful life, depreciation (amortisation) method or residual value of the asset or cash-generating unit



100. A federal entity shall reverse an impairment loss recognized in prior periods for an asset (except goodwill) or cash-generating unit if, and only if, there has been a positive change in the estimates used in the previous period to determine the asset's recoverable amount. If this is the case, the carrying amount of the asset shall be increased (except what is mentioned in paragraph 102) to its recoverable amount. That increase is a reversal of an impairment loss recognized in prior periods.

101. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date at which an impairment loss for that asset was recognized. A federal entity shall identify the change in estimates that caused the increase in estimated service potential.



Example 26.17 - Changes in Estimates that Result in the Reversal of an Impairment Loss

Following are examples of changes in the estimates used that may result in an increase in the estimated service potential of an asset:

- ✓ A change in the basis for recoverable amount (whether recoverable amount is based on fair value less costs to sell or value in use);
- ✓ If recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows, or in the discount rate;
- ✓ If recoverable amount was based on fair value less costs to sell, a change in the estimate of the components of fair value less costs to sell.

102. An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the unwinding of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an Impairment Loss for an Individual Asset

103. In cases when an impairment loss of an individual asset is reversed, a federal entity shall increase the asset's carrying amount (except goodwill), provided that it does not exceed the carrying amount that would have been recorded (net of depreciation or amortisation) had no impairment loss been recognized in prior periods.



104. A reversal of an impairment loss for an asset shall be recognized immediately in the statement of financial performance for the period.

105. After a reversal of an impairment loss is recognized, the federal entity shall adjust the depreciation or amortisation charge for the asset over its remaining useful life, on a systematic basis, based on the revised carrying amount, after taking into account the asset's residual value (if any) at the end of its useful life.

Reversing an Impairment Loss for a Cash-generating Unit

106. A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit pro rata with the carrying amounts of those assets. A reversal of impairment losses for individual assets shall be recognized in accordance with paragraph 102. No part of the impairment loss that is reversed shall be allocated to a non-cash-generating asset, even if this asset is contributing to the service potential of the cash-generating unit.

107. The carrying amount of an individual asset may not be increased beyond its recoverable amount or the carrying amount that would have been determined due to depreciation (amortisation) had no impairment loss been recognized in prior periods, whichever is lower.

**Example 26.18 - Recognising the Reversal of Impairment Losses**

Further to example 26.13, on September 30, 2014 real estate prices improved as the demand on property in the area where the building is located recovered, which was a clear indication for reversing the impairment loss of the building.

Fair value less costs to sell was estimated at AED 19,000,000.

The building's carrying amount at that date was AED 14,000,000 which represents the carrying amount AED 18,000,000 on September 30, 2009 less 4,000,000 in depreciation for 5 years, and remaining useful life of the building was 17.5 years.

Accordingly, the federal entity assesses the reversible impairment loss as follows:

If the asset's carrying amount is lower than its recoverable amount (fair value less costs to sell), the federal entity shall reverse the asset's impairment and increase its carrying amount by the difference.

However, the increased carrying amount may not exceed the assets carrying amount had impairment not been previously recognized.

The asset's carrying amount had impairment not been previously recognized (the carrying value prior to impairment on September 30, 2009 less depreciation charge for 5 years):

$$22,500,000 - 5,000,000 = \text{AED } 17,500,000$$

Therefore, impairment of the building is reversed as follows:

$$17,500,000 - 14,000,000 = \text{AED } 3,500,000$$

Example 26.18 - Recognising the Reversal of Impairment Losses

Accordingly, the federal entity makes the following entries:

Description	Debit	Credit
Provision for Accumulated Impairment	3,500,000	
Profit from Impairment reversal		3,500,000

During subsequent periods, the federal entity uses the asset's new carrying amount to calculate depreciation over the remaining useful life of the asset (building).

Depreciation for the period from October 1, 2014 to December 31, 2014 is recorded as follows:

Description	Debit	Credit
Expenses / Depreciation of a Building $\left(\frac{17,500,000}{17.5}\right) \times \left(\frac{3}{12}\right)$	250,000	
Accumulated Depreciation		250,000

**Example 26.19- How is Impairment Loss allocated to Assets of a cash-generating Unit?**

The Federal Electricity and Water Authority (FEWA) has an indication that a cash-generating unit may have been impaired. The authority performed an impairment test and estimated the recoverable amount of the cash-generating unit to be AED 700. Following are other details about the cash-generating unit:

Assets	Carrying Amount	Fair Value Less Cost to Sell	Value in Use
Property, Plant and Equipment			
Buildings	500	550	500
Machinery	90	50	50
Intangible Assets			
Intangible Assets	250	N/A	150
Total per Cash-generating Unit	840	600	700

The total recoverable amount of the cash-generating units is AED 700 (The highest of the value in use and fair value less costs to sell).

Impairment to be allocated: AED 140 (the difference between the carrying amount and recoverable amount). Impairment is allocated as follows:

Assets	Carrying Amount (A)	Recoverable Amount (Value in Use) (B)	Allocated Impairment (C) = (A) - (B)	Carrying Amount Revised Based on Allocation (D) = (A) + (C)

**Example 26.19- How is Impairment Loss allocated to Assets of a cash-generating Unit?**

Buildings	500	500	---	---
Machinery	90	50	(40)	50
Intangible Assets	250	150	(100)	150
Total per Cash-generating Unit	840	700	(140)	

As provided above, impairment is allocated on a pro rata basis based on the carrying amount of each asset in the unit.

Redesignation of Assets

108. The redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a redesignation is appropriate. The redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. However, a federal entity shall assess whether there is an indication of possible impairment in the asset in the fiscal period following the period in which the redesignation occurred. The federal entity shall consider, as a minimum, the indications listed in paragraph 15.

**Example 26.20 - Redesignation of Assets**

In 2010, a federal entity constructed a building to be leased out to third parties. Accordingly, this building was considered a cash-generating asset. In 2014, the entity decided to convert the building from an investment property to an administration building. Therefore, based on this change in the purpose of the building, the federal entity decided to redesignate the asset from a cash-generating asset to a non-cash generating asset.

**Example 26.21 Overview of Possible Steps to Follow to Determine an Impairment of a Cash-generating Unit****Step 1: Has any event taken place indicating an impairment of the cash-generating unit which consists of a group of tangible assets?**

- ✓ When assessing whether there is any indication of possible impairment of a cash-generating unit, a federal entity shall examine both the internal and external indications of impairment, as prescribed in paragraph 14.
- ✓ If the answer to the question above is no, then there is no need to take further action for the time being, other than documentation. If the answer to the question is yes, proceed to Step 2.

Step 2: Do previous accounts show that the recoverable amount of the cash-generating unit is significantly higher than its carrying amount and there has not been any events that would eliminate such difference?

Example 26.21 Overview of Possible Steps to Follow to Determine an Impairment of a Cash-generating Unit

- ✓ Materiality should be considered. If previous assessment shows that the recoverable amount of the cash-generating unit is significantly higher than its carrying amount, the federal entity may not have to reassess the unit's recoverable amount if there has not been any events that would eliminate such difference. Similarly, previous analysis may show that the recoverable amount of the cash-generating unit is insensitive to one (or more) of the internal or external indications discussed in paragraph 15.
- ✓ If the answer to the question in Step 2 is yes, then there is no need for further action for the time being, other than documentation. If the answer is no, proceed to Step 3.

Step 3: Determining the recoverable amount of the cash-generating unit (i.e. fair value less costs to sell or value in use, whichever is higher). Is the recoverable amount higher than the carrying amount of the cash-generating unit?

- ✓ If the answer is yes, then there is no impairment. If the answer is no, then the federal entity shall calculate the impairment loss as the difference between the carrying amount and the recoverable amount, and proceed to Step 4.

Step 4: If impairment losses are determined and adopted, impairment losses should be recorded.

- ✓ If the recoverable amount is lower than the carrying amount, the carrying amount shall be reduced to the recoverable amount. Such reduction is impairment loss which shall be recorded in the statement of financial performance.
- ✓ Future period depreciation of depreciable assets shall be adjusted by their type based on the asset's "new" carrying amount and remaining useful life.
- ✓ The carrying amount of the cash-generating unit shall be determined in a manner that is consistent with the manner in which its recoverable amount was determined.

Disclosures



109. A federal entity shall disclose the techniques used to distinguish cash-generating assets from non-cash-generating assets.



110. A federal entity shall disclose the following for each class of assets:

- A. The expenses arising from impairment losses recognized in the statement of financial performance, specifying the items affected by impairment.
- B. The amount of reversals of impairment losses recognized in the statement of financial performance, specifying the items affected by impairment reversals.



111. A federal entity that reports segment information in accordance with FGAAS 18 "Segment Reporting" shall disclose the recognized and reversed impairment losses for each reported segment.



112. If the impairment loss recognized or reversed for an individual asset or cash-generating unit during the period is material to financial statements, a federal entity shall disclose:

- A. The events and circumstances that led to the recognition or reversal of the impairment loss;
- B. The amount of the impairment loss recognized or reversed;
- C. For a cash-generating asset:
 - ✓ The nature of the asset; and
 - ✓ The segment to which the asset belongs.
- D. For a cash-generating unit:
 - ✓ A description of the cash-generating unit (such as a product line, a plant, a service line, a geographical area or a reported segment);
 - ✓ The amount of the impairment loss recognized or reversed by class of assets or by segment (where applicable);
 - ✓ If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount, a federal entity shall describe the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified;
- E. Whether the recoverable amount of the asset is its fair value less costs to sell or its value in use;
- F. If the recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether it was determined by reference to an active market or by any other means);
- G. If the recoverable amount is the asset's value in use, the federal entity shall disclose the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

113. A federal entity shall disclose the aggregate impairment losses and the aggregate amounts of reversals of impairment losses for which no information is disclosed in accordance with paragraph 98 due to the immateriality of amounts. Therefore, a federal entity shall disclose the following information:

- A. The main classes of assets affected by the impairment losses recognized or reversed;
- B. The main events and circumstances that led to the recognition or reversal of these impairment losses.

114. A federal entity is encouraged to disclose the assumptions used to determine the recoverable amount of assets during the period.

115. If any portion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.

Disclosure of Estimates Used to Measure Recoverable Amounts of Cash-Generating Units Containing Intangible Assets with Indefinite Useful Lives:



116. An entity shall make the disclosures required for each cash-generating unit (group of units) when the carrying amount of intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the federal entity's total carrying amount of intangible assets with indefinite useful lives. Therefore, a federal entity shall disclose the following information:

- A. The carrying amount of goodwill allocated to the unit (group of units);
- B. The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);
- C. The basis on which the unit's (group of units) recoverable amount has been determined (i.e., value in use or fair value less costs to sell);
- D. If the unit's (group of units) recoverable amount is based on value in use:
 - ✓ A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets / forecasts. Key assumptions are those by which the unit's (group of units) recoverable amount is significantly affected and to which it is most sensitive;
 - ✓ A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with information from external sources, and, if not, how and why they differ from past experience or information from external sources;
 - ✓ The period over which management has projected cash flows based on the most recent financial budgets / forecasts approved by management. When the period of cash flows for a cash-generating unit (group of units) is greater than five years, a federal entity shall explain why that longer period is justified;

- ✓ The growth rate used to calculate cash flow projections beyond the period covered by the most recent budgets / forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries or jurisdiction in which the federal entity operates, or for the market to which the unit (group of units) is dedicated;
 - ✓ The discount rate(s) applied to the cash flow projections.
- E. If the unit's (group of units) recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using a market price for the unit, the following information shall also be disclosed:
- ✓ A description of each key assumption on which management has based its determination of fair value less costs to sell;
 - ✓ A description of management's approach to determining the value (values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with information from external sources, and, if not, how and why they differ from past experience or information from external sources.

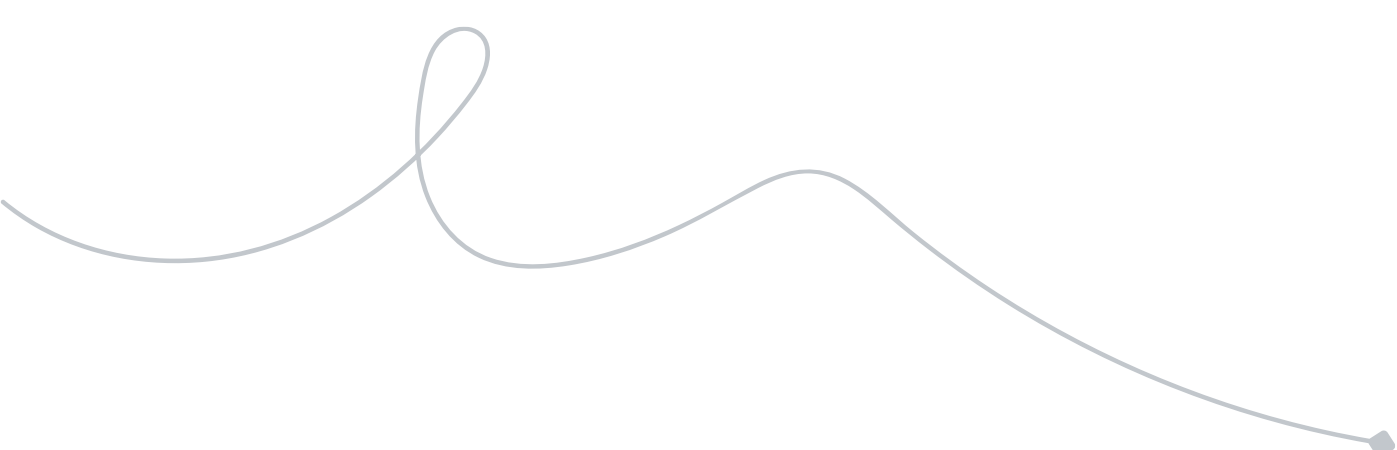
If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:

- ✓ The period over which management has projected cash flows;
 - ✓ The growth rate used to calculate cash flow projections;
 - ✓ The discount rate(s) applied to the cash flow projections.
- F. If a reasonably possible change in key assumptions on which management has based its determination of the unit's recoverable amount would cause the unit's (group of units) carrying amount to exceed its recoverable amount, the following shall be disclosed:
- ✓ The amount by which the unit's (group of units) recoverable amount would exceed its carrying amount;
 - ✓ The value assigned to the key assumption;
 - ✓ The amount by which the value assigned to the key assumption must change, after considering any consequential effects on the other variables used to measure the recoverable amount, in order for the unit's (group of units) recoverable amount to be equal to its carrying amount.

117. If some or all of the carrying amount of intangible assets with indefinite useful lives is allocated across multiple cash-generating units (group of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the federal entity's total carrying amount of intangible assets (with indefinite useful lives), the federal entity shall disclose that fact, together with the aggregate carrying amount of the intangible assets allocated to cash-generating units (group of units). In addition, if the recoverable amounts of any of those units are based on an assumption(s), and the aggregate carrying amount of the federal entity's intangible assets with indefinite useful lives allocated to those units (group of units) is significant in comparison with the federal entity's total carrying amount of intangible assets with indefinite useful lives, the federal entity shall disclose that fact, together with:



- A. The aggregate carrying amount of goodwill allocated to those units (groups of units);
 - B. The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);
 - C. A description of the key assumptions;
 - D. A description of management's approach to determining the value(s) assigned to each key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with information from external sources, and, if not, how and why they differ from past experience or information from external sources;
 - E. If a reasonably possible change in a key assumption(s) would cause the unit's (groups of units); carrying amount to exceed its recoverable amount:
 - ✓ The amount by which the unit's (groups of units); recoverable amount would exceed its carrying amount;
 - ✓ The value(s) assigned to the key assumptions;
 - ✓ The amount by which the value(s) assigned to the key assumption(s) must change, after considering any consequential effects on the other variables used to measure the recoverable amount, in order for the unit's (groups of units); recoverable amount to be equal to its carrying amount.
118. A federal entity shall disclose whether the previous period's calculation of the recoverable amount of an intangible asset with an indefinite useful life has been used to measure that intangible asset's recoverable amount for the current period.



Standard 21 - Impairment of Non- cash Generating Assets

Standard 21 - Impairment of Non-cash Generating Assets

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 21 (IPSAS 21) which prescribes how to identify and assess impairment of non-cash generating assets. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective



1. The objective of this Standard is to prescribe the procedures that should be applied to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognized. This Standard also specifies when a federal entity should reverse an impairment loss and prescribes necessary disclosures.
2. This Standard primarily addresses the following topics:
 - A. Identifying non-cash generating assets;
 - B. Identifying assets that may be impaired: Impairment indications;
 - C. The bases for measuring recoverable service amount and different methods adopted for this purpose;
 - D. The method for recognizing and measuring an impairment loss;
 - E. Loss reversal cases and recognition methods;
 - F. Presentation and disclosure requirements for impairment of non-cash-generating assets.

Scope



3. This Standard applies to federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto
4. A key principle governing impairment is that an asset may not be recognized in the statement of financial position at an amount that is higher than its recoverable amount. Therefore, a federal entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except:
 - A. Inventory (FGAAS 12);
 - B. Assets arising from construction contracts (FGAAS 11);
 - C. Financial assets (FGAAS 41);

Non-current assets (disposal groups) classified as held for sale in accordance with FGAAS 44; and

Non-current Assets Held for Sale and Discontinued Operations.

- D. Other non-cash generating assets the accounting requirements for impairment of which are included in another standard in the Manual of Federal Government Accrual Accounting Standards.
5. Federal entities that hold cash-generating assets as defined in FGAAS 26 "Impairment of Cash-generating Assets" shall apply FGAAS 26 to such assets. Federal entities that hold non-cash generating assets shall apply the requirements of this Standard to such assets.
6. A federal entity shall apply this Standard to the following investments if, and only if, these financial assets are categorized as non-cash generating assets:

- A. Controlled entities, as defined in FGAAS 35 “Consolidated Financial Statements”;
- B. Associates, as defined in FGAAS 36 “Investments in Associates and Joint Ventures”; and
- C. Joint arrangements, as defined in FGAAS 37, “Joint Arrangements”.

Identifying a Non-cash Generating Asset



7. Non-cash generating assets are all assets that are not categorized as cash-generating assets. Non-cash generating assets include, but are not limited to:
 - A. Building used by a federal entity to provide free-of-charge social services;
 - B. Infrastructure assets that do not generate any commercial return;
 - C. Computer software used to facilitate the delivery of public services without earning any significant commercial return.
8. With reference to FGAAS 26 “Impairment of Cash-generating Assets”, cash-generating assets include assets held for the primary objective of generating a commercial return. An asset generates a commercial return when used in a manner consistent with that adopted by a federal entity. Holding an asset to generate a “commercial return” indicates that a federal entity intends to:
 - A. Generate positive cash inflows from this asset (or from the cash-generating unit of which the asset is a part);
 - B. Earn a commercial return that affects the risks involved in holding the asset.



Example 21.1 - A Non-cash Generating Asset Held Primarily for Service Delivery Purposes

A hospital of the Ministry of Health uses a building for fee-paying patients (a cash-generating asset), although most of the hospital’s other assets (including other buildings) are assets that serve public interest (non-cash generating assets).



Example 21.2 - A Non-cash Generating Asset Held Primarily for Service Delivery Purposes

The Ministry of Health operates a waste disposal plant to ensure the safe disposal of medical waste generated by public hospitals of the Ministry (as its main activity), but the plant also treats (as a secondary activity) a small amount of medical waste generated by private sector hospitals on an arm’s length basis for a fee. In this case, cash-generating assets cannot be distinguished from non-cash generating assets because the primary objective of the plant is to provide services.

9. In other cases, an asset may generate cash flows and also be used for non-cash-generating purposes. The purpose of holding the asset and the extent to which it is held with the

objective of generating a commercial return needs to be considered when determining whether the applicable accounting standard is:

- A. (FGAAS 26 "Impairment of Cash-generating Assets"); or
- B. This Standard.



Example 21.3 - A Cash-generating Asset Used for Non-cash Generating Purposes

A public hospital of the Ministry of Health has ten wards, nine of which are used for fee-paying patients on an arm's length basis, and the other is used for patients who cannot afford to pay fees or are covered by administrative exemption from payment. Patients from all wards jointly use all other hospital facilities.

Here, the extent to which the asset is held for the purpose of generating a commercial return should be considered in order to determine whether to apply this Standard or FGAAS 26 "Impairment of Cash-generating Assets".

10. In some cases, it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows associated with the asset. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that the federal entity should apply this Standard, rather than FGAAS 26 "Impairment of Cash-generating Assets" rather than this Standard. A federal entity should ensure consistency in selecting the Standard to apply with respect to impairment of the asset, based on estimates and professional judgment and in accordance with the definitions of cash-generating and non-cash generating assets.

For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. This Standard deals with the assessment of individual assets. Consequently, an entity applies FGAAS 26 "Impairment of Cash-generating Assets" rather than this Standard to determine whether to impair goodwill.

Identifying an Asset that may be Impaired

11. A federal entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the federal entity shall estimate the recoverable service amount of the asset.
12. A non-cash generating asset is impaired when its carrying amount exceeds its recoverable service amount. Paragraph 16 prescribes key indications of a potential impairment loss. If any of those indications exist, a federal entity shall make a formal estimate of the recoverable service amount. If no indication of a potential impairment loss exists, this Standard does not require a federal entity to make a formal estimate of the recoverable service amount; except as prescribed in paragraph 13.
13. Irrespective of whether there is any indication of impairment, a federal entity shall annually test the following assets for impairment:



- A. An intangible asset with an indefinite useful life;
 - B. An intangible asset that is not yet available for use.
14. This impairment test for intangible assets may be performed at any time during the reporting period, provided that it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.
15. This Standard requires intangible assets that are not yet available for use to be tested for impairment annually in order to determine their ability to generate sufficient future economic benefits or service potential to recover their carrying amount. This test is usually subject to greater uncertainty before the asset is available for use than after it is available for use.



16. When assessing whether there is any indication that an asset may be impaired, a federal entity shall consider, as a minimum, the following indications:

Information from External Sources:

- A. Cessation, or near cessation, of the demand or need for services provided by the asset;
- B. Significant long-term changes with an adverse effect on the federal entity have taken place during the period, or will take place in the near future in the technological, legal or government policy environment in which the federal entity operates.



Example 21.4 - Examples of Information from External Sources

Latest modern medical and technological studies lead to the development of a new technology used in medical imaging equipment for early detection of tumors and malignant diseases. The studies also indicated that old technology has adverse effects on patients.

After reviewing these studies, the Ministry of Health decided that existing medical equipment need to be replaced by new medical imaging equipment that would achieve their intended objectives without adversely affecting patients. This technological advance is an effective external factor that indicates a decrease in the recoverable amount of medical equipment and, therefore, impairment of those assets.

Information from Internal Sources:

- A. Evidence is available of physical damage of an asset;
 - B. Significant long-term changes with an adverse effect on the federal entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the unit to which an asset belongs or plans to dispose of an asset before the previously expected date and reassess its useful life as finite rather than indefinite;
 - C. A decision is made to cease constructing the asset before it is complete or in a usable condition;
 - D. Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected. For example:
 - ✓ The costs of operating or maintaining this asset are significantly higher than those originally budgeted;
 - ✓ The asset's service and output levels are significantly lower than those expected at the beginning of the period.
17. Before assessing the recoverable amount, a federal entity shall consider materiality; as it is not always necessary to assess an asset's recoverable amount once materiality is considered, as shown in the following example:



Example 21.5 - Considering Materiality when Assessing the Recoverable Amount

Previous calculations of the Ministry of Energy indicate that the recoverable service amount of a non-cash generating machine used thereby is significantly higher than its carrying amount. Therefore, the Ministry does not need to re-estimate the recoverable service amount of that machine so long as the Ministry is certain that there has not been any effective events that would change such significant difference between the recoverable service amount and the carrying amount.

Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations.

18. If there is an indication that an asset may be impaired, this may indicate the need to review and adjust the following in accordance with the FGAAS applicable to the asset, even if no impairment loss is recognized for the asset:



- A. The remaining useful life;
- B. The depreciation (amortisation) method; or
- C. The residual value for the asset in accordance with the FGAAS applicable to the asset, even if no impairment loss is recognized for the asset.

Measuring the Recoverable Service Amount

19. This Standard defines the recoverable service amount as the higher of an asset's fair value less costs to sell or its value in use. Therefore, it is not always necessary to determine both the asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
20. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market. Paragraph 23 sets out possible alternative bases for estimating fair value less costs to sell when an active market for the asset does not exist. However, it will not be possible, in some cases, to determine fair value less costs to sell if there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in a commercial transaction between knowledgeable and willing parties. In this case, the federal entity may use the asset's value in use as its recoverable service amount.
21. If there is no reason to believe that an asset's value in use significantly exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable service amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds. For non-cash-generating assets which are held on an ongoing basis to provide specialised services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less costs to sell.

Measuring the Recoverable Service Amount for an Intangible Asset with an Indefinite Useful Life



22. Paragraph 13 of this Standard requires a federal entity to test an intangible asset with an indefinite useful life for impairment on an annual basis. This can be done by comparing the carrying amount to the recoverable service amount, irrespective of any indication of a potential impairment. However, the most recent detailed calculation of an asset's recoverable service amount in the preceding period may be used in the impairment test for that asset in the current period; provided that all the following conditions are met:
- A. If the intangible asset does not generate service potential from continuous use that is largely independent of the service potential generated by other assets or groups of assets, it shall be tested for impairment as part of the non-cash generating unit to which it belongs, as the assets and liabilities making up that unit have not changed significantly since the most recent calculation of the recoverable amount;
 - B. If the most recent calculation of the recoverable amount resulted in an amount that substantially exceeded the asset's carrying amount;
 - C. If, after analysing events that have occurred and circumstances that have changed since the most recent calculation of the recoverable service amount, the likelihood that the current recoverable service amount would be less than the asset's carrying amount is remote.

Fair Value Less Costs to Sell



23. When determining fair value less costs to sell, a federal entity shall consider the following evidence:
- The best evidence of an asset's fair value by reference to the price specified in a binding sale agreement in a commercial transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.
 - If there is no binding sale agreement, reference shall be made to available information from an active market for this type of assets, and the fair value less costs to sell shall be the market price less costs of disposal.
 - If the current market bid price is unavailable, fair value may be determined by reference to the most recent transaction involving a similar asset in similar economic conditions, provided that there has not been any significant changes between the transaction date and the reporting date.
24. Costs of disposal, other than those that have been recognized as liabilities, shall be deducted when determining fair value less costs to sell. Examples of such costs include: Legal costs, stamp duty and similar transaction taxes, costs of removing the asset and direct incremental costs to bring an asset into condition for its sale. However, end-of-service benefits and costs associated with reducing or reorganising a business following the disposal of an asset are not direct incremental costs to dispose of the asset.



Example 21.6 - Determining Fair Value Less Costs to Sell

A federal entity owns a building that is not used to generate a commercial return, but rather to provide social services. The entity purchased the building for the cost of AED 2,500,000 on September 30, 2000 and its useful life at that date was estimated to be 30 years. The Entity intends to use this asset for this purpose until the end of its useful life.

On June 30, 2015, the federal entity corresponded with the building management team to notify them of the possibility of ceasing to use the building due to a planned disposal of these social services by resolution of the Council of Ministers.

The federal entity collected the following information in order to determine fair value less costs to sell:

- ✓ Based on information from UAE real estate market, the estimated sale price of a building with similar specifications in the same area is AED 1,300,000;
- ✓ In order to complete the sale, the federal entity needs to issue a certificate of compliance with safety standards which, together with the examination involved, will cost AED 15,000;
- ✓ The federal entity will perform some cleaning and minor maintenance for the building so that it becomes ready for sale. The cost of cleaning and maintenance is AED 10,000;
- ✓ Due to the sale of the building, some employees will be transferred and others dismissed, which will result in AED 60,000 in staff-related costs.

Example 21.6 - Determining Fair Value Less Costs to Sell

Accordingly, the federal entity determines fair value less costs to sell as follows:

Market value of the asset	AED 1,300,000
Safety examination and certificate costs	AED (15,000)
Cleaning and maintenance costs	AED (10,000)
Staff-related costs	-
Building's fair value less costs to sell	AED 1,275,000

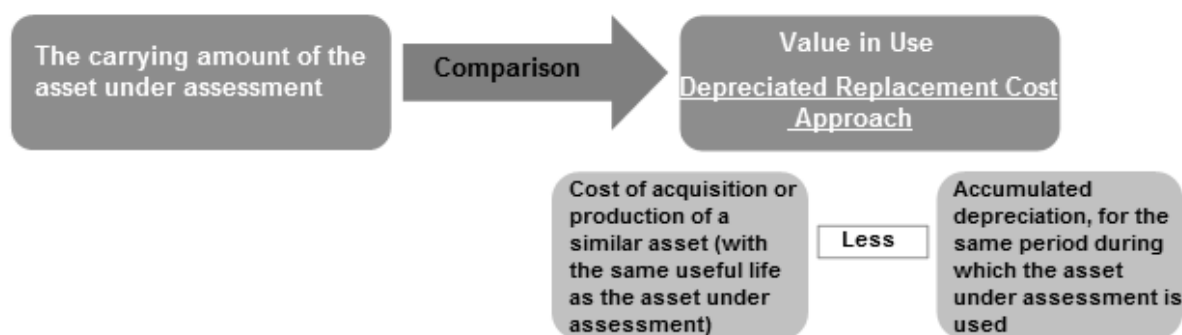
Note: The federal entity does not regard staff-related costs (end-of-service and reorganisation costs) as incremental costs of disposal of the building and, therefore, does not include these costs in the calculation of the building's fair value less costs to sell.

Value in Use

25. This Standard defines the value in use of a non-cash-generating asset as the current value of the asset's remaining service potential. "Value in use" in this Standard refers to "value in use of a non-cash generating asset" unless otherwise specified. The current value of the remaining service potential of the asset is determined using any of the following approaches:

Depreciated Replacement Cost Approach

26. Under this approach, a federal entity shall determine the current value of the remaining service potential of an asset by determining its depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition.
27. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential using another asset. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. The following diagram shows how to determine the value in use by adopting the Depreciated Replacement Cost Approach:



28. The replacement cost and reproduction cost of an asset are determined on an optimised basis. The rationale is that a federal entity would not replace or reproduce the asset with a similar asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Such assets contain features which are unnecessary for the goods or services they provide. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. Therefore, the replacement cost or reproduction cost is determined on an optimised basis that reflects the required service potential of the asset.
29. In certain cases, standby or surplus assets are held without providing current services for safety or other reasons. This arises from the need to ensure that such assets are available to provide certain services in the particular circumstances of the entity. For example, a federal entity may need to have fire engines on standby to provide services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.



Example 21.7 - Determining the Value in Use, Depreciated Replacement Cost Approach

In 2010, a federal entity purchased a new mainframe computer for AED 600,000 and its useful life was estimated to be 7 years.

At the date of purchase, the federal entity expected that various sections will be using 80% of the capacity of the "CPU", while the remaining (20%) of CPU's capacity was assigned to cover the needs of the accounting section during peak times. Within a few months after the computer was purchased, the use of the CPU reached 80%.

By the end of 2015, the use of the CPU dropped to 15% because many system applications used by federal entity's sections were migrated to PCs.

In the market, there is a computer that costs AED 400,000 and is capable of providing the remaining service potential of the mainframe computer relating to system applications that are still operating using the CPU.

First Step - Assessing indications of impairment

An indication of impairment is a significant long-term change in the technical environment that results in migration of applications from the mainframe computer to other platforms and, consequently, a decline in the use of the mainframe computer. In addition, a significant decline in the use of the mainframe computer indicates an impairment.

Therefore, the recoverable service amount of the CPU needs to be measured.

Example 21.7 - Determining the Value in Use, Depreciated Replacement Cost Approach

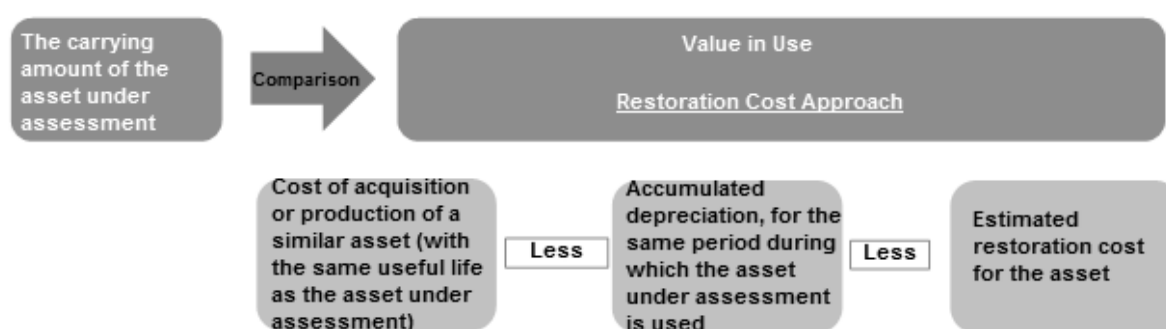
Second Step - Measuring the recoverable amount using the Depreciated Replacement Cost Approach

The impairment loss is determined using the depreciated replacement cost approach as follows:

	AED
Acquisition Cost, 2010	600,000
Accumulated Depreciation (5 years): $\left(\frac{600,000}{7}\right) \times 5$	(428,571)
(A) Carrying Amount at the End of 2015	171,429
Replacement Cost	400,000
Accumulated Depreciation (5 years): $\left(\frac{400,000}{7}\right) \times 5$	(285,714)
(B) Recoverable Service Amount	114,286
Impairment Loss (A) - (B)	57,143

Restoration Cost Approach

30. A federal entity shall determine the restoration cost by assessing the cost of restoring the service potential of an asset to its pre-impairment level. The present value of the remaining service potential of the asset shall be determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated replacement or reproduction cost of the asset whichever is lower. Paragraphs 26 - 29 include additional guidance on determining the depreciated replacement or reproduction cost of an asset. The following diagram shows how to determine the value in use by adopting the Restoration Cost Approach:





Example 21.8 - Determining the Value in Use, Restoration Cost Approach

In 2011, a federal entity purchased a bus for AED 400,000 to help students get to school free of charge. The entity estimated the useful life of this bus to be 10 years.

4 years after the date of purchase (2015), the bus sustained damages in a road accident and needed AED 40,000 to be restored to its usable condition. If the bus is restored to its normal condition, its original useful life will not be affected.

On the date of the accident, the cost of a new bus that provides the same service was estimated at AED 300,000.

First Step - Assessing indications of impairment

There is an indication of impairment because the bus was actually damaged in a road accident. Therefore, the recoverable service amount of the bus needs to be measured.

Second Step - Measuring the recoverable service amount using the Restoration Cost Approach

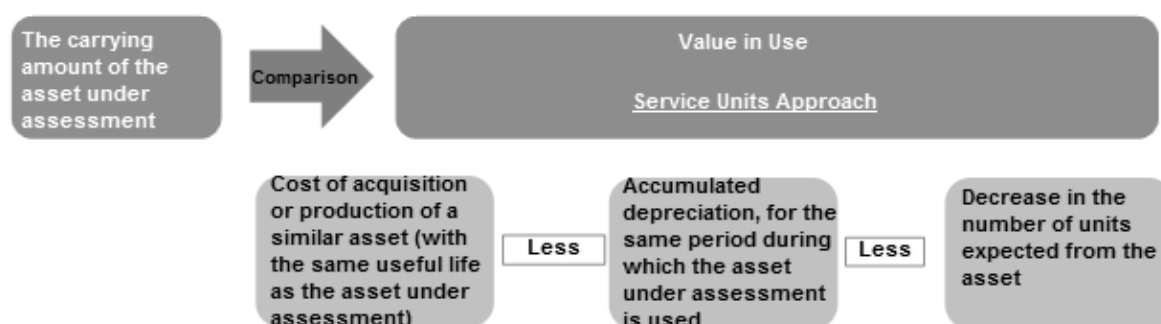
The impairment loss is determined using the Restoration Cost Approach as follows:

	AED
Acquisition Cost, 2011	400,000
Accumulated Depreciation, (4 years): $\left(\frac{400,000}{10}\right) \times 4$	(160,000)
(A) Carrying Amount at the End of 2015	240,000
Replacement Cost	300,000
Accumulated Depreciation, (4 years): $\left(\frac{300,000}{10}\right) \times 4$	(120,000)
Depreciated Replacement Cost (In undamaged state)	180,000
Less: Restoration Cost	(40,000)
(B) Recoverable Service Amount	140,000
Impairment Loss (A) - (B)	100,000

Service Units Approach



31. A federal entity shall determine the present value of the remaining service potential of an asset by reducing the current cost of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state. Using the same method adopted under the Restoration Cost Approach, a federal entity shall determine the current cost of replacement of the remaining service potential of an asset before impairment as the depreciated replacement or reproduction cost of the asset before impairment, whichever is lower. The following diagram shows how to determine the value in use by adopting the service units approach:



Example 21.9 - Determining the Value in Use, Service Units Approach

At the beginning of 2013, the Ministry of Education purchased a new printing press for AED 21,500,000. The Ministry estimated the useful life of the printing press to be 10 years and that it will enable the Ministry to print 40 million copies of books for primary school students (since the objective of the Ministry is to provide students with services without earning any commercial return).

By the end of 2015, after a thorough examination conducted by the technical team, it was determined that the automated part of the device does not function as expected, which would result in a 5% reduction in the number of books expected to be printed over the remaining seven years of the asset's useful life.

On the date of examination, the cost of replacing the printing press with a new one was estimated at AED 20,250,000.

First Step - Assessing indications of impairment

Internal reports (technical examination) indicate that the performance of the printing press is worse than expected. Circumstances indicate that the impairment of the asset's service potential is significant and of a long-term nature and is, therefore, an indication of impairment. Therefore, the recoverable service amount of the printing press needs to be measured.

Second Step - Measuring the recoverable amount using the service units approach

The impairment loss is determined using the service units approach as follows:

	AED
Acquisition Cost, 2013	21,500,000
Accumulated Depreciation, (3 years): $\left(\frac{21,500,000}{10}\right) \times 3$	(6,450,000)
(A) Carrying Amount at the End of 2015	15,050,000
Replacement Cost	20,250,000
Accumulated Depreciation, (3 years): $\left(\frac{20,250,000}{10}\right) \times 3$	(6,075,000)
Depreciated Replacement Cost before Adjustment for Remaining Service Units	14,175,000

Example 21.9 - Determining the Value in Use, Service Units Approach

Less: 5% Reduction (14,175,000 x 5%)	(708,750)
(B) Recoverable Service Amount	13,466,250
Impairment Loss (A) - (B)	1,583,750

Application of Approaches



32. The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:
- A. An impairment resulting from significant long-term changes in the technological, legal or government policy environment is generally measurable using the Depreciated Replacement Cost Approach or the Service Units Approach, when appropriate;
 - B. An impairment resulting from a significant long-term change in the extent or manner of use, including that from the cessation or near cessation of demand, is generally measurable using the Depreciated Replacement Cost Approach or the Service Units Approach, when appropriate;
 - C. An impairment resulting from physical damage is generally measurable using the Restoration Cost Approach or the Depreciated Replacement Cost Approach, when appropriate.

Recognising and Measuring an Impairment Loss



33. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount.
34. An impairment loss shall be recognized immediately in the statement of financial performance for the period.
35. When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, a federal entity shall not recognize a liability unless that is required by another FGAAS.



Example 21.10 - Recognition of Impairment Losses

When a power plant that was constructed for a special purpose that does not generate any commercial return and the federal entity which owns this plant is required under the Environment Law to remove and dismantle the plant once it is no longer in use. Accordingly, the federal entity may have to recognize a liability in the provision of dismantling costs if so required under FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets".

36. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



Example 21.11 - Recognition of Impairment Losses

A federal entity has a building that is used for administrative purposes (not for generating a commercial return).

On September 30, 2009, the building's carrying amount was AED 22,500,000 (Purchase date is March 31, 2002, Purchase cost is AED 30 million, estimated useful life at the date of purchase is 30 years). During that period, the global financial crisis affected real estate prices, which



Example 21.11 - Recognition of Impairment Losses

provided a clear indicator of impairment of this building and, therefore, the need to estimate its recoverable amount.

Fair value less costs to sell was estimated at AED 18,000,000, and value in use was estimated at AED 17,500,000 using the Depreciated Replacement Cost.

At that date, the remaining useful life of the building was 22.5 years.

First Step - Determining the recoverable service amount

The recoverable service amount is the higher of:

- ✓ Fair value less costs to sell: AED 18,000,000;
- ✓ Value in use: AED 17,500,000.

Therefore, the asset's recoverable service amount is AED 18,000,000.

Second Step- Recognising and measuring impairment of the asset

If the asset's carrying amount is higher than its recoverable amount, the federal entity should reduce the asset's value by the difference between the two amounts.

Therefore, the impairment of the building is 22,500,000 - 18,000,000 = AED 4,500,000.

Accordingly, the federal entity makes the following record:

Description	Debit	Credit
Expenses / Impairment Loss	4,500,000	
Provision for Impairment - Accumulated		4,500,000

Note, during subsequent periods, the federal entity uses the impaired asset value to calculate depreciation over the remaining useful life of the asset (building).

Depreciation for the period from October 1, 2009 to December 31, 2009 is recorded as follows:

Description	Debit	Credit
Expenses / Depreciation of a Building $\left(\frac{18,000,000}{22.5}\right) \times \left(\frac{3}{12}\right)$	200,000	
Accumulated Depreciation		200,000

Reversing an Impairment Loss



37. A federal entity shall, at each reporting date, assess whether there is any indication that an impairment loss recognised in prior periods for an asset may have changed, which would result in an increase in value. If any such indication exists, the federal entity shall estimate the recoverable service amount of that asset.



38. When assessing whether there is any indication that an impairment loss recognised in prior periods for an asset may have changed, which would result in an increase in value, a federal entity shall, as a minimum, consider the following indications:

Information from External Sources:

- A. Resurgence of the demand or need for services provided by the asset.

- B. Significant long-term changes with a favorable effect on the federal entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

Information from Internal Sources:

- A. Significant long-term changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the unit to which the asset belongs.
 - B. A decision is made to resume construction of the asset that was previously discontinued before it was completed or in a usable condition.
 - C. Evidence is available from internal reporting indicating that the service performance of the asset is, or will be, significantly better than expected.
39. The list of indications of a potential impairment loss provided in paragraph 38 is not exhaustive and mainly reflect the indications of a potential impairment loss prescribed in paragraph 16. A federal entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, any of the following additional indications indicate that the impairment loss may be reversed:
- A. A significant rise in an asset's market value; or
 - B. A significant long-term increase in the demand or need for the services provided by the asset.
40. If there is an indication that an impairment loss recognised for an asset may have changed, which would result in an increase in value, this may indicate the need to review and assess the following:
- A. The remaining useful life; or
 - B. The depreciation (amortisation) method; or
 - C. The residual value for the asset in accordance with the FGAAS applicable to the asset, even if no impairment loss is recognized for the asset.
41. An impairment loss recognized in prior periods for an asset shall be reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as prescribed in paragraph 43, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.
42. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when a federal entity last recognized an impairment loss for that asset. Paragraph 52 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

- A. A change in the basis of calculation of the recoverable service amount (i.e., whether the recoverable service amount is based on fair-value less costs to sell or value in use);
 - B. A change in estimate of the components of value in use, if the recoverable service amount was based on value in use; or
 - C. A change in estimate of the components of fair value less costs to sell, if the recoverable service amount was based on fair value less costs to sell.
43. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognized for the asset in prior periods.
44. A reversal of an impairment loss for an asset shall be recognized immediately in the statement of financial performance for the period.
45. After a reversal of an impairment loss is recognized, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



Example 21.12 - Recognition of Reversal of Impairment Loss

Further to example 11, on September 30, 2014 real estate prices improved as the demand on property in the area where the building is located recovered, which was a clear indication for reversing the impairment loss of the building.

Fair value less costs to sell was estimated at AED 19,000,000.

The building's carrying amount at that date was AED 14,000,000 which represents the carrying amount AED 18,000,000 on September 30, 2009 less 4,000,000 in depreciation for 5 years, and remaining useful life of the building was 17.5 years.

Accordingly, the federal entity assesses the reversible impairment loss as follows:

If the asset's carrying amount is lower than its recoverable service amount (fair value less costs to sell), the federal entity shall reverse the asset's impairment and increase its carrying amount by the difference.

However, the increased carrying amount may not exceed the asset's carrying amount had impairment not been previously recognized.

The asset's carrying amount had impairment not been previously recognized (the carrying amount prior to impairment on September 30, 2009 less depreciation charge for 5 years):
 $22,500,000 - 5,000,000 = \text{AED } 17,500,000$.

Therefore, impairment of the building is reversed as follows:

$19,000,000 - 14,000,000 = \text{AED } 5,000,000$

Since the increased carrying amount may not exceed the asset's carrying amount had no impairment been previously recognized, the recognized impairment of the asset is reversed as follows:

$17,500,000 - 14,000,000 = \text{AED } 3,500,000$.

Accordingly, the federal entity makes the following entries:

**Example 21.12 - Recognition of Reversal of Impairment Loss**

Description	Debit	Credit
Reversal of Impairment Loss / Profit from Reversal of Impairment		3,500,000
Provision for Accumulated Impairment	3,500,000	

During subsequent periods, the federal entity uses the asset's new carrying amount to calculate depreciation over the remaining useful life of the asset (building).
Depreciation for the period from October 1, 2014 to December 31, 2014 is recorded as follows:

Description	Debit	Credit
Expenses / Depreciation of a Building $\left(\frac{17,500,000}{17.5}\right) \times \left(\frac{3}{12}\right)$	250,000	
Accumulated Depreciation		250,000

Redesignation of Assets

46. The redesignation of assets from cash-generating assets to non-cash-generating assets or vice versa shall only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the need for an impairment test or a reversal of an impairment loss arises from the indications applicable to the asset after redesignation.

Disclosures

47. A federal entity shall disclose the techniques used to distinguish non-cash generating assets.
48. A federal entity shall disclose the following for each category of assets:
- The amount of impairment losses recognized in surplus or deficit during the period and the items of the statement of financial performance in which those impairment losses are included.
 - The amount of reversals of impairment losses recognized in the statement of financial performance during the period and the items of the statement of financial performance in which those impairment losses are included.
49. A category of assets is a grouping of assets of similar nature and use in a federal entity's operations.
50. The information required in paragraph 49 may be presented with other information disclosed for a category of assets. For example, a reconciliation of the carrying amount of property,

plant and equipment, at the beginning and end of the period, may include this information as required by FGAAS 17 "Property, Plant and Equipment".

51. A federal entity that reports segment information in accordance with FGAAS 18, "Segment Reporting" shall disclose the following for each segment reported by the entity:

- A. The amount of impairment losses recognized in the statement of financial performance during the period; and
- B. The amount of reversals of impairment losses recognized in the statement of financial performance during the period.



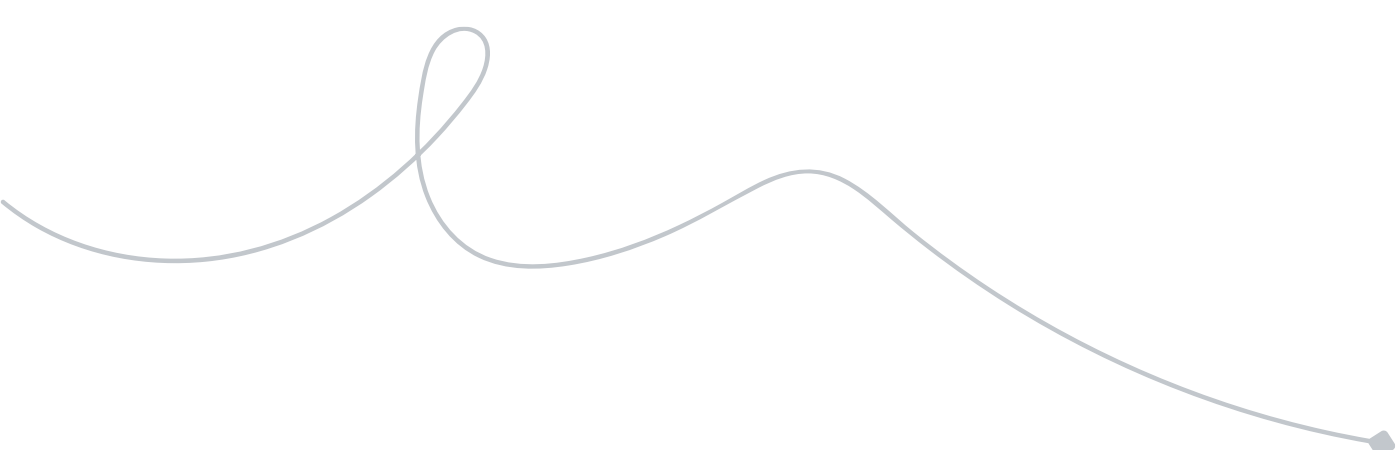
52. A federal entity shall disclose the following for each material impairment loss recognised or reversed during the period:

- A. The events and circumstances that led to the recognition or reversal of the impairment losses;
- B. The amount of the impairment losses recognized or reversed;
- C. The nature of the asset;
- D. The segment to which the asset belongs, if the entity reports segment information in accordance with FGAAS 18 "Segment Reporting";
- E. Whether the recoverable service amount is fair value less costs to sell or value in use;
- F. The basis used to determine fair value less costs to sell (whether fair value was determined by reference to an active market), if the recoverable service amount is fair value less costs to sell;
- G. The approach used to determine value in use, if the recoverable service amount is value in use.

53. A federal entity shall disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognized during the period for which no information is disclosed in accordance with paragraph 52:

- A. The main categories of assets affected by impairment losses (and the main categories of assets affected by reversals of impairment losses);
- B. The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

54. A federal entity should preferably disclose key assumptions used to determine the recoverable service amount of assets during the period.



Standard 44 - Non-current Assets Held for Sale and Discontinued Operations

Standard 44 - Non-current Assets Held for Sale and Discontinued Operations

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 44 (IPSAS 44). It is worth mentioning that certain text of standard 44 have been rephrased in line with the requirements of UAE Federal Government.

The Non-current Assets Held for Sale and Discontinued Operations

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Objective



1. The objective of this Standard is to specify the requirements relating to the recognition and measurement for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, this Standard requires:
 - A. Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and
 - B. Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

Scope



2. This Standard shall apply to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in its introduction. A federal entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations.
3. The measurement, classification, and presentation requirements of this Standard apply to all recognized non-current assets and to all disposal groups of a federal entity, except for those assets listed in paragraph 6 which shall continue to be measured in accordance with the Standard noted.
4. Assets classified as non-current in accordance with Federal Government Accrual Accounting Standard 1 "Presentation of Financial Statements" and assets of a class that a federal entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Standard.
5. Sometimes a federal entity disposes of a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit. The group may include any assets and any liabilities of the federal entity, including current assets, current liabilities and assets excluded by paragraph 6 from the measurement requirements of this Standard. If a non-current asset within the scope of the measurement requirements of this Standard is part of a disposal group, the measurement requirements of this Standard apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. The requirements for measuring the individual assets and liabilities within the disposal group are set out in paragraphs 21, 22 and 26.
6. The measurement provisions of this Standard do not apply to the following assets, which are covered by the Standards listed, either as individual assets or as part of a disposal group:

- A. Assets arising from employee benefits (Federal Government Accrual Accounting Standard 39 "Employee Benefits");
 - B. Financial assets within the scope of Federal Government Accrual Accounting Standard 41 "Financial Instruments";
 - C. Non-current assets that are measured at fair value less costs to sell in accordance with Federal Government Accrual Accounting Standard 27 "Agriculture".
7. This Standard specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other accrual accounting standards for the federal government do not apply to such assets (or disposal groups) unless those accrual accounting standards for the federal government require:
- A. Specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
 - B. Disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of this Standard and such disclosures are not already provided in the other notes to the financial statements.

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of Federal Government Accrual Accounting Standard 1.

Classification of Non-current Assets (or Disposal Groups) as Held for Sale



- 8. A federal entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- 9. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

Example 44.1 - Non-current Assets (or Disposal Groups) Available for Immediate Sale

A federal entity is committed to a plan to sell its headquarters building and has initiated actions to locate a third party (buyer):

The federal entity intends to transfer the building to the third party after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets.

The federal entity will continue to use the building until construction of a new headquarters building is completed. The federal entity does not intend to transfer the existing building to the third party until the construction of the new building is completed (and it vacates the existing building).

Example 44.1 - Non-current Assets (or Disposal Groups) Available for Immediate Sale

- ✓ The delay in the timing of the transfer of the existing building imposed by the federal entity (seller) demonstrates that the building is not available for immediate sale.
- ✓ The criterion in the standard would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

**Example 44.2 - Non-current Assets (or Disposal Groups) Available for Immediate Sale**

A federal entity intends to sell a property comprising land and buildings:

The Federal entity does not intend to transfer the property to the third party (buyer) until after it completes renovations to increase the property's sales value.

- ✓ The delay in the timing of the transfer of the property imposed by the federal entity (seller) demonstrates that the property is not available for immediate sale.
- ✓ The criterion in the standard would not be met until the renovations are completed.

After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the federal entity becomes aware of environmental damage requiring remediation.

The federal entity still intends to sell the property. However, the federal entity does not have the ability to transfer the property to a third party (buyer) until after the remediation is completed.

- ✓ The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale.
- ✓ The criterion in the standard would not continue to be met. The property would be reclassified as held and used.

10. For the sale to be highly probable:

- ✓ The appropriate level of management must be committed to a plan to sell the asset (or disposal group), and;
- ✓ An active program to locate a buyer and complete the plan must have been initiated;
- ✓ The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
- ✓ The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification;
- ✓ Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

11. A federal entity that is committed to a sale plan involving loss of control of a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the



criteria set out in paragraphs 9-10 are met, regardless of whether the entity will retain a non-controlling interest in its former controlled entity after the sale.

12. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the federal entity's control and there is sufficient evidence that the federal entity remains committed to its plan to sell the asset (or disposal group).



Example 44.3 - The Completion of the Sale of Non-current Assets (or Disposal Groups) Within One Year

The Federal Entity of Water and Electricity is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a third party (buyer) is known and a firm purchase commitment is obtained.

- ✓ However, a firm purchase commitment is highly probable within one year;
- ✓ In that situation, the conditions in the standard for an exception to the one-year requirement would be met.



Example 44.4 - Exception of the Completion of the Sale of Non-current Assets (or Disposal Groups) Within One Year

The Federal Entity of Water and Electricity is committed to a plan to sell a water filter unit in its present condition and classifies the unit as held for sale at that date. After a firm purchase commitment is obtained, the third party (buyer's) inspection of the property identifies environmental damage not previously known to exist.

The third party (buyer) requests to repair the damage, which will extend the period required to complete the sale beyond one year. However, the federal entity has initiated actions to repair the damage, and satisfactory rectification of the damage is highly probable.

- ✓ In that situation, the conditions in the standard for an exception to the one-year requirement would be met.

13. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with Federal Government Accrual Accounting Standard 17 "Property, Plant, and Equipment".
14. When a federal entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if:
 - A. The one-year requirement is met (completed sale within one year from the date of classification,) and;



- B. It is highly probable that any other criteria that are not met at that date will be met within a short period following the acquisition (usually within three months).



Example 44.5 - Measurement and Presentation of Subsidiaries Acquired with a View to Resale and Classified as Held for Sale

General Civil Aviation Authority acquires a third party (a), which is a holding company with two subsidiaries, entity (b) and entity (c). entity (c) is acquired exclusively with a view to sale and meets the criteria to be classified as held for sale. Entity (c) is also a discontinued operation.

- ✓ The estimated fair value less costs to sell of entity (c) is AED 135,000. The Authority accounts for entity (c) as follows:
- ✓ The Authority initially measured the identifiable liabilities of entity (c) at fair value, at AED 40,000.
- ✓ The Authority also at that time measured the acquired assets as the fair value less costs to sell of entity (c) at AED 175,000;
- ✓ At the end of the reporting period, The Authority remeasures the disposal group at the lower of its cost and fair value less costs to sell, say at AED 130,000. The liabilities are remeasured in accordance with Accrual Accounting Standards of the Federal Government, say at AED 35,000. The total assets are measured at AED 165,000;
- ✓ at the end of the reporting period, The Authority presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 44.9;
- ✓ in the statement of financial performance, The Authority presents the total of the post-tax profit or loss of entity (c) and the post-tax gain or loss recognised on the subsequent remeasurement of entity (c), which equals the remeasurement of the disposal group from AED 135,000 to AED 130,000.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.

15. If the criteria in paragraphs 9 and 10 are met after the reporting period, a federal entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the authorization of the financial statements for issue, the entity shall disclose the information specified in paragraph 49 (A), (B) and (D) in the notes.

Non-current Assets that are to be Abandoned



16. A federal entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

However, if the disposal group to be abandoned meets the criteria in paragraph 38 (A)-(C), the federal entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 39 and 40 at the date on which it ceases to be used.

Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

17. A federal entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.



Example 44.6 - Identification of Non-current Assets to be Abandoned

Following illustrative example specify requirements for when assets are to not be treated as abandoned:

A federal entity ceases to use a building as its headquarters because of moving to new a building. However, the building is maintained in workable condition, and it is expected that it will be brought back into use by shifting some departments to it.

- ✓ In this case, and according to the requirements of the Standard, the building is not regarded as abandoned.

Measurement of Non-current Assets (or Disposal Groups) Classified as Held for Sale

Measurement of a non-current Assets (or Disposal Group)



18. A federal entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
19. If the asset (or disposal group) is acquired as part of an acquisition (see Federal Government Accrual Accounting Standard 40 "Business Combinations"), it shall be measured at fair value less costs to sell. If the asset (or disposal group) is acquired as part of an amalgamation (see Federal Government Accrual Accounting Standard 40), it shall be measured at the lower of its carrying amount and fair value less costs to sell.
20. When the sale is expected to occur beyond one year, the federal entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in surplus or deficit as a financing cost.
21. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable accrual accounting standards for the federal government.
22. On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this Standard but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable Federal Government Accrual Accounting Standard before the fair value less costs to sell of the disposal group is remeasured.



Recognition of Impairment Losses and Reversals

23. An entity shall recognize an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.
24. A federal entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized either in accordance with this Standard or previously in accordance with Federal Government Accrual Accounting Standard 21 "Impairment of Non-Cash-Generating Assets" or accrual accounting standards for the federal government 26 "Impairment of Cash-Generating Assets".



25. A federal entity shall recognize a gain for any subsequent increase in fair value less costs to sell of a disposal group:
- To the extent that it has not been recognized in accordance with paragraph 22; but
 - Not in excess of the cumulative impairment loss that has been recognized, either in accordance with this Standard or previously in accordance with Federal Government Accrual Accounting Standard 21 "Impairment of Non-Cash-Generating Assets" or Federal Government Accrual Accounting Standard 26, "Impairment of Cash-Generating Assets".
26. The impairment loss (or any subsequent gain) recognized for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Standard, in the order of allocation set out in paragraphs 92 (a) and (b) and 96 of Federal Government Accrual Accounting Standard 26, "Impairment of Cash-Generating Assets".
27. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition.
28. A federal entity shall not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.
29. A federal entity shall continue to recognize interest and other expenses attributable to the liabilities of a disposal group classified as held for sale.

**Example 44.7 - Recognition of Impairment Losses and Reversals**

Following illustrative example explains the accounting treatment for impairment loss of a non-current asset (disposal group) held for sale:

A federal entity plans to dispose of a group of its assets (as an asset sale). The assets form a disposal group, and are measured as follows:

AED		
	Carrying amount at the end of the reporting period	Carrying amount as remeasured immediately

**Example 44.7 - Recognition of Impairment Losses and Reversals**

	before classification as held for sale	before classification as held for sale
Goodwill	1,500	1,500
Property, plant, and equipment	5,700	5,100
Inventory	2,400	2,200
investments in equity instruments	1,800	1,500
Total	11,400	10,300

The federal entity recognises the loss of AED 1,100 (AED 11,400 - AED 10,300) immediately before classifying the disposal group as held for sale.

The federal entity estimates that fair value less costs to sell of the disposal group at year end amounts to AED 8,600. Because an entity measures a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the entity has recognised an impairment loss of AED 1,700 (AED 10,300 - AED 8,600) when the group was initially classified as held for sale.

The impairment loss is allocated to non-current assets to which the measurement requirements of the Accrual Accounting Standards of the Federal Government are applicable. Therefore, no impairment loss is allocated to inventory and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in the impairment Standard 26.

The allocation can be illustrated as follows:

AED			
	Carrying amount as remeasured immediately before classification as	Allocated impairment loss	Carrying amount after allocation of impairment loss
Goodwill	1,500	(1,500)	-
Property, plant and equipment	5,100	(200)	4,900
Inventory	2,200	-	2,200
Investments in equity instruments	1,500	-	1,500
Total	10,300	(1,700)	8,600

First, the impairment loss reduces any amount of goodwill. Then, the residual loss is allocated to other assets pro rata based on the carrying amounts of those assets.

Changes to a Plan of Sale

30. If a federal entity has classified an asset (or disposal group) as held for sale, but the classification requirements are no longer met, the federal entity shall cease to classify the asset (or disposal group) as held for sale. In such cases a federal entity shall follow the guidance in paragraphs 31-35 below to account for this change.



31. The federal entity shall measure a non-current asset (or disposal group) that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:
- a. Its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization that would have been recognized had the asset (or disposal group) not been classified as held for sale; and
 - b. Its recoverable amount at the date of the subsequent decision not to sell.
32. The federal entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in surplus or deficit from continuing operations in the period in which the classification criteria in paragraphs 9-12 are no longer met.
33. Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a controlled entity, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The federal entity shall present that adjustment in the same caption in the statement of financial performance used to present a gain or loss, if any, recognized in accordance with paragraph 44.
34. If a federal entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the classification criteria.
35. Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale shall be measured individually at the lower of their carrying amounts and fair values less costs to sell at that date. Any non-current assets that do not meet the criteria for held for sale shall cease to be classified as held for sale in accordance with paragraph 30.

Presentation and Disclosure

36. A federal entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

Presenting Discontinued Operations

37. A component of a federal entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the federal entity. In other words, a component of an entity may have been a cash-generating unit or a group of cash-generating units while being held for use.
38. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and
- a. Represents a separate major operation or geographical area of operations;
 - b. Is part of a single coordinated plan to dispose of a separate major operation or geographical area of operations; or
 - c. Is a controlled entity acquired exclusively with a view to resale.



39. A federal entity shall disclose:
- a. A single amount in the statement of financial performance comprising the total of:
 - ✓ The post-tax surplus or deficit of discontinued operations; and
 - ✓ The post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
 - b. An analysis of the single amount in (A) into:
 - ✓ The revenue, expenses and pre-tax surplus or deficit of discontinued operations;
 - ✓ The gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

The analysis may be presented in the notes or in the statement of financial performance. If it is presented in the statement of financial performance, it shall be presented in a section identified as relating to discontinued operations, i.e., separately from continuing operations. The analysis is not required for disposal groups that are newly acquired controlled entities that meet the criteria to be classified as held for sale on acquisition.
 - c. The net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired controlled entities that meet the criteria to be classified as held for sale on acquisition.

40. A federal entity shall re-present the disclosures in paragraph 39 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

41. Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior

period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed.

42. If a federal entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations in accordance with paragraphs 39- 41 shall be reclassified and included in revenue from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.
43. An entity that is committed to a sale plan involving loss of control of a controlled entity shall disclose the information required in paragraphs 39-42 when the controlled entity is a disposal group that meets the definition of a discontinued operation.

Gains or Losses Relating to Continuing Operations

44. Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in surplus or deficit from continuing operations.

Example 44.8 - Gains or Losses Relating to Continuing Operations

Statement of Financial Performance	20X2	20X1
Continued operations		
Revenue		
Revenue from non-exchange transactions	X	X
Revenue from exchange transactions	X	X
Total revenue	X	X
Expenditures		
Salary expenditures	(X)	(X)
Other expenditures	(X)	(X)
Total expenditures	(X)	(X)
Surplus or deficit for the period from continued operations	X	X
Discontinued operations		
Surplus or deficit for the period from discontinued operations	X	X
Surplus or deficit for the period	X	X

Presentation of a Non-current Asset or Disposal Group Classified as Held for Sale

45. A federal entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount.

46. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes,. A federal entity shall present separately any cumulative revenue or expense recognized in the statement of changes in net assets/equity relating to a non-current asset (or disposal group) classified as held for sale.
47. If the disposal group is a newly acquired controlled entity that meets the criteria to be classified as held for sale on acquisition (see paragraph 14), disclosure of the major classes of assets and liabilities is not required.
48. A federal entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.

Additional Disclosures



49. A federal entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:



- a. A description of the non-current asset (or disposal group);
 - b. A description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
 - c. The gain or loss recognized in accordance with paragraphs 23-25, and;
 - d. If applicable, the segment in which the non-current asset (or disposal group) is presented in accordance with Federal Government Accrual Accounting Standard 18 "Segment Reporting".
50. A federal entity shall disclose in the notes, the fair value of the non-current asset (or disposal group) classified as held for sale when that non-current asset (or disposal group) is measured at a materially lower carrying amount than fair value.
 51. If either paragraph 30 or paragraphs 34- 35 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

Fair Value Disclosures



52. A federal entity shall disclose information that helps users of its financial statements assess, for assets and liabilities that are measured at fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements.



53. To meet the objectives in paragraph 52 above, an entity shall consider all the following:
 - a. The level of detail necessary to satisfy the disclosure requirements.
 - b. How much emphasis to place on each of the various requirements.

- c. How much aggregation or disaggregation to undertake; and
- d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this Standard and other accrual accounting standards for the federal government are insufficient to meet the objectives in paragraph 52, a federal entity shall disclose additional information necessary to meet those objectives.

54. To meet the objectives in paragraph 52, a federal entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition:

- a. The fair value measurement at the end of the reporting period, and the reasons for the measurement.
- b. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3).
- c. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique, the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement.
- d. For fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the federal entity (including, for example, how a federal entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).
- e. For fair value measurements, if the highest and best use of a non-financial asset differs from its current use, a federal entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

55. For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, a federal entity shall disclose the information required by paragraphs 54(B), 54(C) and 54(E).

Transitional Provisions

A federal entity shall apply this Standard prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and operations that meet the criteria to be classified as discontinued after the effective date of this Standard.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2025.

Technical References

IPSAS 44 - Non-current Assets Held for Sale and Discontinued Operations.

Transitional Provisions

A federal entity adopting the Federal Government Accrual Accounting Standards for the first time may be exempted from the requirement to recognize and measure the following prior to the expiry of the grace period of three years from the date of adopting FGAAS in the preparation of financial statements:

- A. Inventory;
- B. Investment property;
- C. Property, plant and equipment;
- D. Biological assets and agricultural produce;
- E. Intangible assets;
- F. Service concession assets and liabilities.

A federal entity may apply transitional provisions if, and only if, it has not recognized assets and liabilities prior to first-time adoption of Federal Government Accrual Accounting Standards.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

Technical References

- IPSAS 17 - Property, Plant and Equipment;
- IAS 16 - Property, Plant and Equipment;
- IPSAS 16 - Investment Property;
- IPSAS 31 - Intangible Assets;
- IAS 38 - Intangible Assets;
- IPSAS 27 - Agriculture;
- IPSAS 43 - Leases;
- IPSAS 32 - Service Concession Arrangements: Grantor;
- IPSAS 21 - Impairment of Non-cash Generating Assets;
- IPSAS 26 - Impairment of Cash-generating Assets.
- IPSAS 44 - Non-current Assets Held for Sale and Discontinued Operations.



Section - Inventory

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Document Control

This document contains the Federal Government Accrual Accounting Standard (FGAAS) relating to recording inventories of the Federal Government of the United Arab Emirates.

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Introduction

This Standard provides directions regarding the accounting treatment of inventories in the Federal Government in terms of recognizing and determining the cost of inventories, measurement and subsequent measurement methods, presentation requirements and disclosures to be made in financial statements.

This Standard shall apply to any federal entity which, according to this Standard, can be defined as:

- A ministry; including all ministries of the United Arab emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Definitions

The following terms are used in this standard in the following context:



Term	Definition
Obsolescence	Obsolescence is a term that refers to an item of inventory (including services) that has reached the end of its useful life cycle without being subject to sale or use for a specified period of time.
Costs to Sell	Incremental costs attributable to disposal of an asset, other than finance charge and income tax. Disposal may be by way of sale or distribution for no charge or for a nominal charge.
Current Replacement Cost	The cost a federal entity would incur to acquire the asset on the reporting date.
Net Realizable Value	The estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution in the ordinary course of operations.
Inventories	Inventories are: A. Assets in the form of materials or supplies to be consumed in the production process or distributed in the rendering of services; B. Assets held for sale or distribution in the ordinary course of operations; or C. Assets in the process of production for sale or distribution.
Exchange Transactions	Transactions in which a federal entity receives assets or services or amortizes liabilities, and directly gives approximately equal value (in the form of cash, goods, services or use of assets).
Non-exchange Transactions	Transactions in which a federal entity either receives value or an asset, or reduction of a liability, from another entity without giving equal value in exchange, or gives value or an asset, or reduction of a liability, to another entity without receiving equal value in exchange.



Standard 12 - Inventory

Standard 12 - Inventory

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 12 (IPSAS 12) for inventories. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to understand and explain the accounting treatment of inventories, introduce the bases for measurement on recognition and subsequent measurement and prescribe the disclosure requirements to be met in financial statements. This Standard also provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.
2. This Standard primarily addresses the following topics:
 - A. Types of inventories;
 - B. Costs of inventories (costs of purchase, costs of conversion and other costs)
 - C. Techniques for measurement and calculation of the cost of inventories;
 - D. Net realizable value;
 - E. Recognition of an expense; and
 - F. Disclosure of inventories.

Scope



3. This Standard applies to federal entities covered by the FGAASs as detailed in the Introduction thereto.
4. The following assets are outside the scope of this Standard:
 - A. Work in progress relating to construction contracts, including directly related service contracts (FGAAS 11 "Revenue from Construction Contracts");
 - B. Financial instruments (FGAAS 41 "Financial Instruments");
 - C. Biological assets related to agricultural activity and agricultural produce at the point of harvest (FGAAS 27 "Agriculture"); and
 - D. Work in progress of services to be provided for no or nominal consideration directly from the recipients of services.



5. This Standard does not apply to the measurement of inventories held by:
 - A. Producers of agricultural and forest products and agricultural produce after harvest, to the extent that they are measured at net realizable value in accordance with well-established practices in the relevant industries and in certain cases of production; and
 - B. Commodity traders and brokers who measure their inventories at fair value less costs to sell, when the purpose of purchasing commodities is to sell them in the near future and generate profit from price fluctuations and commodity traders and brokers margin. Changes in fair value less costs to sell for this type of

inventories are recognized in the statement of financial performance for the period during which changes take place.

6. Net realizable value refers to the net amount that a federal entity expects to realise from the sale of inventory in the ordinary course of operations, whereas fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the market. Therefore, net realizable value for inventories does not necessarily have to equal fair value less costs to sell for the same inventories.

Types of Inventories

7. Inventories include goods purchased and held for resale, work in progress and finished goods produced by a federal entity. Inventories also include materials and supplies used in the production process and goods purchased or produced by a federal entity for distribution to other parties for no charge or for a nominal charge.
8. Inventories may relate to the provision of services when a federal entity is a service provider. Therefore, inventories are not limited to the cost of goods, materials and supplies, but may also include the cost of labor and other costs of employees directly involved in the provision of services.



Example 12.1 - Examples of Types of Inventories

- ✓ Supplies and consumables;
- ✓ Maintenance and cleaning materials;
- ✓ Ammunition;
- ✓ Military inventories;
- ✓ Spare parts for plant and equipment other than those dealt with in FGAAS 17 "Property, Plant and Equipment";
- ✓ Postal service supplies held for sale, such as stamps;
- ✓ Educational books and materials;
- ✓ Drugs and pharmaceuticals;
- ✓ Chemicals;
- ✓ Live plants and animals materials and supplies, such as fodder;
- ✓ Building, construction and manufacturing materials and supplies;
- ✓ Electronic supplies;
- ✓ Other materials (such as rocks, marble and sand).

9. For the purposes of this Standard, the Federal Government shall recognize a strategic reserve, such as food and drugs reserve (to be used in emergencies or other cases such as natural disasters) as inventory and treat it accordingly.
10. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems.

Measurement of Inventories



11. Inventories shall be measured at the lower of cost and net realizable value, except for inventories dealt with in paragraphs 12 and 13.
12. Inventories acquired through a non-exchange transaction shall be measured at fair value as on the date of acquisition.



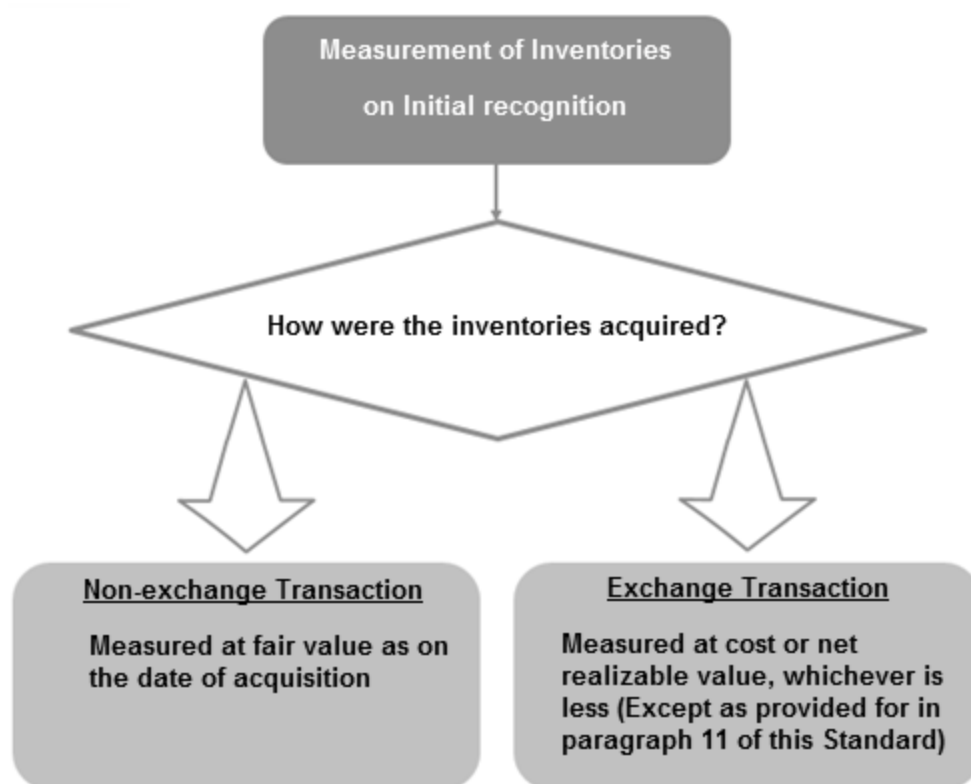
Example 12.2 - Inventories Acquired through a Non-exchange Transaction

An international organization donated a shipment of vaccines to the Ministry of Health to eliminate a certain epidemic that spread throughout the region. This transaction is a non-exchange transaction and the Ministry of Health shall, therefore, determine the cost of acquired inventories (drugs) in accordance with fair value on the date of acquisition.



13. Inventories shall be measured at cost or current replacement cost, whichever is lower, when inventories are held for:
 - A. Distribution at no charge or for a nominal charge;
 - B. Consumption in the production process of goods to be distributed for no charge or for a nominal charge.

14. The following diagram summarises the bases for measurement of inventories on initial recognition:



Cost of Inventories



15. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of Purchase

16. The costs of purchase of inventories shall comprise the purchase price, import duties and other taxes (other than those recoverable (where applicable)), goods transport costs and any other costs directly attributable to the acquisition of finished goods, materials and supplies. Trade discounts, rebates and other similar items shall be deducted when determining the costs of purchase.



Example 12.3 - Costs of Purchase

The Ministry of Education imported educational textbooks and materials from abroad for AED 140,000. This amount includes non-recoverable import duties of AED 20,000. The purchase was financed by borrowing AED 140,000 (at 5% interest for 5 years). Borrowing charge was AED 1,000. In addition, AED 5,000 were incurred in costs of transporting the imported textbooks and materials to the Ministry's warehouses.

Accordingly, the costs of purchase comprise the following amounts:

- ✓ Purchase price: AED 140,000 (including import duties)
- ✓ Interest accrued: Not included in costs of purchase
- ✓ Borrowing charge: Not included in costs of purchase
- ✓ Costs of transporting books to the Ministry's warehouses: AED 5,000

Therefore, the total cost of purchase of inventories = AED 145,000

Costs of Conversion

17. The costs of converting inventories relating to work in progress into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting raw materials into finished goods.
18. Fixed production overheads are those that remain relatively constant regardless of the volume of production (such as depreciation and maintenance of the factory buildings, equipment and right-of-use assets in the production process) and the cost of factory management. Variable production overheads are those that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.
19. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the average level of production expected to be achieved over a number of periods or seasons under normal circumstances, taking into account the loss of capacity expected during planned maintenance. The actual level of production may be used as the basis for allocating fixed production overheads if it approximates production capacity. The amount of fixed overhead allocated to each unit of production may not be increased as a result of low production or idle plant. In periods of abnormally high production, a federal entity shall decrease the amount of fixed overhead allocated to each unit of production to ensure that inventories are measured fairly and not above cost.

Unallocated overheads shall be recognized as an expense in the statement of financial performance for the period in which they are incurred.
20. Variable production overheads shall be allocated to costs of conversion for each unit of production on the basis of the actual use of the production facilities.



Example 12.4 - Allocation of Fixed Overheads

The Ministry of Public Works owns a tile manufacturing plant to be used in the provision of construction services to other federal entities. The plant's normal production capacity is estimated at 20,000 tile units a month. Fixed production overheads are AED 400,000 a month.

How to allocate fixed production overheads in each of the following cases considering that the plant in itself is a single production unit:

In case of producing 20,000 units a month (i.e. normal capacity):

$400,000 / 20,000 = \text{AED } 20 \text{ per unit per month}$

In case of producing 15,000 units a month (low production):

Costs are allocated at AED 20 per unit. Therefore, allocated fixed overheads equal $\text{AED } 20 \times 15,000 \text{ units} = \text{AED } 300,000$

Unallocated costs of $400,000 - 300,000 = \text{AED } 100,000$ are recognized as expenses in the statement of financial performance for the period.

In case of producing 40,000 units a month (abnormally high production):

The Ministry of Public Works has to decrease the allocated fixed overheads per unit so that inventories are not measured above cost, as follows:

$400,000 / 40,000 = \text{AED } 10 \text{ per unit produced in a month.}$

21. A production process may result in more than one product being produced simultaneously. This is the case when joint goods are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. Therefore, they are often measured at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other Costs

22. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.



Example 12.5 - Costs Excluded from the Cost of Inventories and Recognised as Expenses When Incurred

- Abnormal amounts of wasted materials, labor, or other production costs;
- Storage costs, unless those costs are necessary before a particular production stage;
- Administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- Costs to sell.

23. When a federal entity purchases inventories on deferred settlement terms that contain a financing element, that element that results in a difference between the purchase price for normal credit terms and the amount paid, this difference shall be recognized as interest expense in the statement of financial performance over the period of the financing. Borrowing costs shall not be included in the cost of inventories, except in the cases specified in FGAAS 5 "Borrowing Costs", where borrowing costs are included in the cost of inventories.
24. Inventories comprising agricultural produce that a federal entity has harvested from its biological assets shall be measured on initial recognition at their fair value less costs to sell because this is the cost of agricultural produce at the point of harvest in accordance with FGAAS 27 "Agriculture".

Cost of Inventories for a Service Provider

25. Cost of inventories to a service provider shall be measured at the cost of their production. The cost of inventories consists primarily of labor and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labor not engaged in providing the service are not included, such as costs relating to sales and general administrative personnel, are not included but are recognized as expenses in the statement of financial performance for the period in which they are incurred. Margins or non-attributable overheads that are often factored into prices charged by service providers shall also be excluded.

Techniques for the Measurement of Cost

26. For simplicity purposes, techniques for the measurement of the cost of inventories, including; without limitation; the standard cost method, may be used if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. The techniques for the measurement of the cost of inventories shall be regularly reviewed and, if necessary, revised depending on the circumstances.
27. Inventories may be transferred to the federal entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is its fair value as at the date it is acquired.

Cost Formulas

28. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and assigned to specific projects shall be determined using specific identification of their individual costs.
-  29. The treatment related to specific identification of costs shall be appropriate for the items that are assigned to a specific project, regardless of whether they have been purchased or produced. However, this is not the most appropriate treatment when there are large numbers of items of inventory which are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories may be used to obtain predetermined effects on the statement of financial performance for the period.
-  30. The cost of inventories, other than those dealt with in paragraph 27, shall be determined using the first-in, first-out (FIFO) or weighted average cost formulas.
-  31. The same cost formula shall be used for all inventories that have a similar nature and use to the federal entity. For inventories with a different nature or use, different cost formulas may be justified.

Example 12.6 - Justification for Using Different Formulas for the Cost Inventories

- ✓ Inventories of the same type used by a federal entity in two different segments, in which case the use of different cost formulas may be justified due to different purposes of use.
- ✓ A difference in the geographical location of inventories is not sufficient to justify the use of different cost formulas.

32. The FIFO formula assumes that the items of inventory that were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced.

Example 12.7 - FIFO Formula

Inventories of a federal entity were subject to the following changes during the period:

Example 12.7 - FIFO Formula

Date	Description	Units	Carrying Amount in AED	Cost per Unit in AED	Cost of Sold Units in AED
1-Jan	Opening balance	1,000	10,000	10	-
28-Feb	Sale	*(200)	(2,000)*	*	(2,000)*
5-Mar	Purchase	400	6,000	15	-
20-Mar	Purchase	200	4,000	20	-
31-Oct	Sale	(900)**	(9,500)**	**	(9,500)**
		500	8,500		11,500-

The federal entity adopts the FIFO formula in determining the cost of its inventories.

Therefore, the cost of the remaining inventories at the end of the period is calculated as follows:

*Cost of sold units = 200 sold units x AED 10 per unit = AED 2,000

**Cost of sold units = (800 sold units x AED 10 per unit)

+ (100 sold units x AED 15 per unit) = AED 9,500

Therefore, the carrying amount at the end of the period = 20,000 - (2,000 + 9,500) = AED 8,500

33. The weighted average cost formula assumes that the cost of each item is determined from the weighted average cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The weighted average cost may be calculated on a periodic basis, or as each additional shipment is received, depending on the circumstances of the federal entity.

**Example 12.8 - Weighted Average Cost Formula**

Using the same inputs provided in Example 7, but considering that the federal entity is adopting the weighted average cost formula:

Date	Description	Units	Total Cost in AED	Cost per Unit in AED	Cost of Sold Units in AED
1-Jan	Opening balance	1,000	10,000	10	-
28-Feb	Sale	*(200)	*(2,000)	*	*(2,000)
Balance as in February		800	8,000	10	
5-Mar	Purchase	400	6,000	15	-
20-Mar	Purchase	200	4,000	20	-
Balance as in March		1,400	18,000	**	-



Example 12.8 - Weighted Average Cost Formula

31-Oct	Sale	** (900)	** (11,571)	**	(11,571)**

Therefore, the cost of remaining inventories at the end of the period is calculated as follows:

*** Calculating the cost of units sold in February:**

Weighted average cost on sale = $10,000 / 1,000$ units = AED 10 per unit

Cost of units sold in February = 200 sold units x AED 10 per unit = AED 2,000

**** Calculating the cost of units sold in February:**

First, the weighted average cost per unit needs to be calculated. The balance of available units prior to sale in October was 1,400 units with a carrying amount of AED 18,000

Weighted average cost on sale = $18,000 / 1,400$ units = AED 12.86 per unit

Cost of units sold in October = (900 sold units x AED 12.86 per unit) = AED 11,571

Calculating the total carrying amount at the end of the period:

Carrying amount at the end of the period = 500 remaining units x AED 12.86 per unit = AED 6,429

Net Realizable Value



34. The cost of inventories may not be recoverable due to the following factors:
- A. Damage;
 - B. Decline in sale price;
 - C. Obsolescence in whole or part;
 - D. Increase in estimated costs of completion; or
 - E. Increase in estimated costs to be incurred to make the sale, exchange or distribution.
35. The practice of writing inventories down below cost to net realizable value is consistent with the principle of not carrying assets in excess of their future economic benefits or service potential expected to be released from their sale, exchange, distribution or use.



Example 12.9 - Decline in the Cost of Inventories

During a periodic stock-take of one of its warehouses, the Ministry of Health identified 1,000 units of a particular drug with validity dates that expire within the next six months of the same fiscal period. The cost of inventory per pack is AED 100. The drug conforms to all international standards in terms of public safety so long as its validity has not expired. Therefore, the Ministry determined whether there is any shortage of this drug in any of its hospital in an attempt to avoid having to destroy it, if possible. It turned out that there is a government hospital in urgent need of 100 units of the same drug for immediate use.

At the end of the six months period, after completing the stock-take, it turned out that the Ministry of Health managed to dispose of 100 units. Therefore, the Ministry destroyed 900 units due to expiry of the drug validity period.

Accordingly, the Ministry shall recognize an impairment loss for inventories as follows:

Impairment loss for unused drug packs which have been destroyed:

900 units x AED 100 per pack = AED 90,000

Therefore, the following entry shall be made:

Description	Debit	Credit
Impairment loss expense due to damage	90,000	
Inventories (assets) or accumulated impairment loss for inventories (deducted from assets)		90,000

36. The cost of inventories is usually written down to net realizable value on an item by item basis. However, it may be appropriate to group items that have similar purposes or end uses and cannot practicably be evaluated separately from other items in the same product line. It is not appropriate to write down inventories based on a categorization of inventory, such as finished goods or all the inventories used in a particular operation or geographical segment.
37. A federal entity that provides a service usually accumulates costs in respect of each service for which a selling price is determinable. Therefore, each service is treated as a separate item.
38. Estimates of net realizable value also take into consideration the purpose for which the inventory is held. If inventory is held to satisfy a federal entity's sales or service contracts, the net realizable value of inventories held for a specific contract shall be based on the contract price. If the quantity of inventories held exceed the quantity stated in the contract, the net realizable value of the excess shall be calculated based on prevailing selling prices of inventories. With respect of liabilities arising from inventories purchase or sale contracts when the quantities stated in contracts exceed actual quantities held (where applicable), FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets" may be referred to.
39. The cost of materials and other supplies held for use in the production of inventories shall not be written down below cost if the finished products in which these materials will be used are expected to be sold, exchanged or distributed at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such cases, the replacement cost of the materials may be the best available measure of their net realizable value.
40. A new assessment of net realizable value shall be made in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changing economic circumstances, the amount of the write-down shall be reversed (limited to the amount of the original write-down) so that the new carrying amount is equal to the cost or the revised net realizable value, whichever is lower.





Distribution of Goods for No Charge or for a Nominal Charge

41. A federal entity may hold inventories the future economic benefits or service potential of which are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a federal entity decides to distribute certain goods for no charge or for a nominal charge. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes shall be reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost shall be made. If the purpose for which the inventory is held changes, the inventory shall be valued in accordance with paragraph 11 of this Standard.

Recognition as an Expense



42. A federal entity shall recognize the carrying amount of inventories as an expense in the same period in which the revenue from sale, exchange or distribution of these inventories is recognized. If there is no revenue, the expense is recognized when the goods are distributed or the service relating to inventories is rendered.



Example 12.10 - Recognition of Inventories as an Expense

On December 31, a federal entity sold an item of inventory that costs AED 80,000 for AED 100,000. Therefore, the inventory is recognized as an expense when related revenue is recognized, and the following entries are made on December 31:

The Account Affected by the Entry	Debit	Credit
Cash (Asset)	100,000	-
Sale Revenue (Statement of Financial Performance)	-	100,000
For recognition of income from sale		
Expense for the Cost of Sold Item (Statement of Financial Performance)	80,000	-
Inventory (Asset)	-	80,000

For recognition of sold inventory as an expense on recognition of related revenue



43. A federal entity shall recognize the amount of any write-down of inventories and all losses of inventories as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a write-down of the inventories recognized as an expense in the period in which this write-down is reversed.
44. For a service provider, inventories are normally recognized as an expense when services are rendered or when chargeable services are billed.
45. Some inventories may be allocated to other asset accounts. Examples include inventory used as a component of self-constructed / made assets of a federal entity, in which case inventories shall be recognized as an expense during the useful life of the asset.

Presentation and Disclosure



46. The financial statements of a federal entity shall disclose:
- A. The accounting policy adopted in measuring inventories, including the cost formula used;
 - B. The total carrying amount of inventories and the carrying amount in categorizations appropriate to the entity;
 - C. The carrying amount of inventories measured at fair value less costs to sell;
 - D. The amount of inventories recognized as an expense during the period, and the types and nature of the expense (where applicable);
 - E. The amount of any write-down of inventories recognized as an expense during the period;
 - F. Any amount of any reversal of any previous write-downs that have been recognized in the statement of financial performance;
 - G. The circumstances or events that led to the reversal of a write-down of inventories;
 - H. The carrying amount of inventories pledged as security for liabilities (if any).
47. Common categorizations of inventories include goods, production supplies, materials, work in progress and finished goods. The inventories of a service provider may be regarded as work in progress
48. The cost of inventories recognized as an expense during the period consists of those costs included in the measurement of items of inventory that have been sold, exchanged or distributed, and unallocated production overheads and abnormal production costs of inventories. The circumstances of a federal entity may also warrant the inclusion of other costs, such as distribution costs.

Transitional Provisions

A federal entity adopting the FGAAS for the first time may be exempted from the recognition and measurement of inventories prior to the expiry of the grace period of three years from the date of adopting FGAAS in the preparation of financial statement:

A federal entity may apply transitional provisions if, and only if, it has not recognized inventories prior to first-time adoption of the FGAAS.

Effective Date

The provisions of this Standard shall apply after the adoption of the FGAAS.

Technical References

IPSAS 12 - Inventories



Section- Financial Instruments

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Document Control

This document contains the Federal Government Accrual Accounting Standard (FGAAS) relating to recording financial instruments of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	November 2020	December 2020	• Adding Paragraphs 17 and 18 related to derivatives and embedded derivatives in Standard 29 "Financial Instruments". • Adding Paragraph 25 related to held to maturity investments in Standard 29 "Financial Instruments". • Adding Paragraph 72 related to impairment of financial assets held at cost in Standard 29 "Financial Instruments". • Adding Paragraphs 77 and 84 related to derecognition of a financial asset in Standard 29 "Financial Instruments". • Adding Paragraphs 128 and 129 related to concessionary loans in Standard 29 "Financial Instruments". • Adding Paragraph 3 related to scope in Standard 5 "Borrowing costs". • Adding Paragraph 21 related to suspending capitalization of borrowing costs due to interruption of productive development and construction in Standard 5 "Borrowing costs". • Adding Paragraph 6 related to scope in Standard 4 "The Effects of Changes in Foreign Exchange Rates". • Adding Paragraph 20 related to revaluation on the date of preparation of financial statements in Standard 4 "The Effects of Changes in Foreign Exchange Rates". • Adding Paragraph 39 related to using a presentation currency different from the functional currency in Standard 4 "The Effects of Changes in Foreign Exchange Rates".
Fifth Version	August 2025		• Removing Standard 29 " Financial Instruments" • Adding Standard 28 " Financial Instruments: Presentation ", Standard 41 " Financial Instruments: Recognition And Measurement " and Standard 30 " Financial Instruments: Disclosures " • Introducing updates in line with recent amendments to the standards as follow: The removal of definitions related to Standard 29 " Financial Instruments" and addition of definitions related to Standard 28 " Financial Instruments: Presentation ", Standard 41 " Financial Instruments: Recognition And Measurement", and Standard 30 "Financial Instruments: Disclosures".

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to financial instruments and the bases for their classification according to the nature of transactions, and controls for recognizing and measuring transactions relating to financial instruments (including borrowing costs and effects of changes in foreign exchange rates), in addition to the bases for presenting and disclosing them in financial statements.

This Standard shall apply to any federal entity which, according to this Standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Overview of Financial Instruments of the Federal Government

This document includes accounting standards relating to the recognition, measurement and presentation and disclosure requirements for transactions involving financial instruments, including borrowing costs and effects of changes in foreign exchange rates.

This documents includes Federal Government Accrual Accounting Standards (FGAASs) that prescribe the accounting treatments and disclosures relating to financial instruments; by addressing the following topics:

- A. Identifying financial instruments, which include financial assets, financial liabilities, residual interest and derivatives;
- B. The bases for classifying these financial instruments into the classes specified by this Standard;
- C. Setting out the key conditions for initial recognition and measurement of financial instruments;
- D. Financial instruments subsequent measurement techniques and relevant factors, including reassessment at fair value, amortization and impairment, as appropriate;
- E. Setting out the key conditions for derecognizing financial instruments, and the resulting accounting treatments;
- F. Presentation and disclosure requirements relating to financial instruments.

In addition, this document addresses borrowing costs and effects of changes in foreign exchange rates, by dealing with the following topics:

- A. The key conditions for recognizing and capitalizing borrowing costs, in addition to dealing with the bases for measuring and de-capitalizing them;
- B. The bases for identifying the functional currency of a federal entity, and how to recognize transactions in foreign currencies;
- C. The controls on reassessing foreign currency balances when they accrue or when preparing financial statements;
- D. The key disclosure requirements relating to borrowing costs and transactions in foreign currencies.

Definitions



The following terms are used in this Standard in the following context:

Term	Definition
Borrowing Costs	Interest and other expenses in connection with the borrowing of funds that are incurred by a federal entity during the borrowing term.
Foreign Federal Entities	Include controlled federal entities, associate federal entities, joint ventures, branches of other federal entities or operations of federal entities that perform their activities outside the UAE in a currency other than AED.
Closing Rate	The spot exchange rate at the reporting date.
Exchange Rate	The ratio for exchange of two currencies.
Spot Exchange Rate	The exchange rate on the date of the transaction.
Net Investment in A foreign Operation (Foreign Federal Entity)	The amount of the controlling federal entity's interest which prepares consolidated financial statements in the net assets of that foreign operation (foreign federal entity).
Foreign currency	A currency other than the functional currency of the federal entity.
Presentation Currency	The currency in which the financial statements are presented.
Functional Currency	The currency of the primary economic environment in which the federal entity operates.
Exchange Difference	The difference resulting from converting the same number of units of a foreign currency into the presentation currency at different exchange rates.
Hedging	Referred to as entering into a derivative transaction with another party, where it is expected that this transaction will remove or reduce the exposure of the federal entity to certain risks
Hedging Instrument	A hedging instrument is: designated derivative financial instrument; or A designated non-derivative financial asset or financial liability (for a hedge of the risk of changes in foreign currency exchange rates only), whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item

Term	Definition
Puttable Instrument	A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or may be directly put back to the issuer on the occurrence of an unexpected future event or the death or retirement of the instrument holder.
Equity Instrument	Any contract that evidences a residual interest in the assets of a federal entity after deducting all of its liabilities.
Qualifying Asset	An asset that takes a substantial period of construction or preparation to become ready for its intended use or sale.
Hedged Item	An asset, liability, federal entity's commitment, highly probable forecast transaction or net investment in a foreign operation that: Exposes the entity to risk of changes in fair value or future cash flows; Is designated as being a hedged item.
Monetary Items	Cash with a federal entity, and assets and liabilities that are receivable or payable in fixed or determinable cash amounts.
Federal Entity's Commitment	A binding agreement under which a federal entity is required to exchange a specified quantity of resources at a specified price on a specified future date or dates.
Transaction Costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the federal entity had not acquired, issued or sold the financial instrument.
12-month expected credit loss	The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured: At initial recognition; Minus payments of the principal amount; Plus, or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount; Minus any provisions for impairment or uncollectability (the amount is reduced directly or through the use of a provision account)

Term	Definition
Credit-impaired financial asset	A financial asset that is credit- impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: - Significant financial difficulty of the issuer or the borrower; - A breach of contract, such as a default or past due event; - The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; - It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; - The disappearance of an active market for that financial asset because of financial difficulties; or - The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit -impaired.
Credit Loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). A federal entity shall estimate cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.
Credit-adjusted effective interest rate	The rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortized cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid

Term	Definition
	or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
Net Assets / Equity	The amount, whether negative or positive of assets less liabilities in the statement of financial position.
Regular Way Purchase or Sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned.
Effective Interest Method	A method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest revenue or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
Hedge Effectiveness	The degree to which changes in the fair value or cash flows of the hedged item are offset by changes in the fair value or cash flows of the hedging instrument.
Loans and Payables	Financial liabilities, other than short-term trade payables on normal credit terms.
Economic Entity	The controlling federal entity and controlled federal entities / establishments.
Credit Risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Credit Risk Rating Grades	A rating of credit risk based on the risk of a default occurring on the financial instrument.
Other Price Risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
Market Risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises:

Term	Definition
	Foreign exchange risk; Interest rate risk; Other price risk.
Liquidity Risks	The risk that a government entity will encounter difficulty in meeting obligations that are settled by delivering cash or another financial asset.
Interest Rate Risks	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
Foreign Exchange Risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
Derivatives	A derivative is a financial instrument with the following characteristics: Its value changes in response to the change in the related variable, including a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other non-financial variable, provided that the change in the non-financial variable is not specific to a party to the contract; It requires no initial investment or an initial investment that is smaller than would be required for other similar contracts that would be expected to have a similar response to changes in market factors; It is settled at a future date.
Forecast Transaction	An uncommitted but anticipated future transaction.
Future Economic Benefits or Service Potential	The definition of future economic benefits or service potential relates to net cash flows arising from the use of assets to achieve the objectives of a federal entity. Such assets are divided into: Assets the use of which generates indirect net cash flows. Such assets are described as having a “service potential”; Assets the use of which generates direct net cash flows. Such assets are described as having “future economic benefits”.



Standard 28 - Financial Instruments: Presentation

Standard 28 - Financial Instruments: Presentation

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 28 (IPSAS 28). It is worth mentioning that certain text of standard 28 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to establish principles for presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments.

The principles in this Standard complement the principles for recognizing and measuring financial assets and financial liabilities in FGAAS 41 “Financial Instruments”, and for disclosing information about them in FGAAS 30 “Financial Instruments: Disclosures”.

Scope



2. This Standard applies to federal entities covered by the Manual of Accrual Basis of accounting FGAAS as detailed in the Introduction thereto. This standard shall be applied to all types of financial instruments except:

- A. Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with the following FGAAS standards:

- ✓ FGAAS 34 “Separate Financial Statements”;
- ✓ FGAAS 35 “Consolidated Financial Statements”;
- ✓ FGAAS 36 “Investments in Associates and Joint Ventures”; and
- ✓ FGAAS 37 “Joint Arrangements”

However, in some cases, FGAAS standards mentioned above permits a federal entity to account for an interest in a controlled entity, associate, or joint venture using FGAAS 41 “Financial Instruments: Recognition And Measurement”; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures.

- B. Employers' rights and obligations under employee benefit plans, to which FGAAS 39 “Employee Benefits” applies.

- C. Obligations arising from insurance contracts. However, this Standard applies to:

- ✓ Derivatives that are embedded in insurance contracts if FGAAS 41 requires the entity to account for them separately; and
- ✓ Financial guarantee contracts, if the issuer applies FGAAS 41 in recognizing and measuring the contracts.

In addition to point (c) above, a federal entity may apply this Standard to insurance contracts which involve the transfer of financial risk.

- D. Financial instruments that are within the scope of the FGAAS standard dealing with insurance contracts because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 8-30 of this Standard regarding the distinction between financial liabilities and equity instruments.

- E. Financial instruments, contracts and obligations under share-based payment transactions to which the relevant FGAAS standard dealing with share-based payments applies, except for:
 - ✓ Contracts within the scope of paragraphs 4 of this Standard, to which this Standard applies; or
 - ✓ Paragraphs 31 and 32 of this Standard, which shall be applied to treasury shares purchased, sold, issued, or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.
- 3. This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the federal entity's expected purchase, sale, or usage requirements. However, this Standard shall be applied to those contracts that a federal entity designates as measured at fair value through surplus or deficit in accordance with paragraph 7 of FGAAS 41 "Financial Instruments: Recognition And Measurement".

Financial Instruments



- 4. A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments may include, but not limited to the following:
 - A. Financial assets;
 - B. Financial liabilities;
 - C. Equity instrument that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
 - D. Derivative financial instruments such as financial options, forward contracts, swaps and futures contracts.

Financial Assets



- 5. A financial asset is any asset that is:
 - A. Cash;
 - B. An equity instrument of another entity;
 - C. A contractual right:
 - ✓ To receive cash or another financial asset from another entity; or
 - ✓ To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the federal entity.
 - D. A contract that will or may be settled in the entity's own equity instruments and is:

- ✓ A non-derivative for which the federal entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- ✓ A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the federal entity's own equity instruments.

Financial Liabilities

6. A financial liability in a federal entity includes, a contractual obligation:
- A. To deliver cash or another financial asset to another entity; or
 - B. To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity.

Residual Interest

7. Residual interest or equity are contractual rights that grant the party holding such interest the right to benefit from a federal entity's assets after deducting all liabilities.

Presentation

Liabilities and Net Assets/Equity



8. The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.



9. A financial instrument is classified as an equity instrument only if, both conditions below are met:
 - A. The instrument includes no contractual obligation:
 - ✓ To deliver cash or another financial asset to another entity; or
 - ✓ To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.
 - B. If the instrument will or may be settled in the issuer's own equity instruments, it is:
 - ✓ A non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
 - ✓ A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 10 and 11 or paragraphs 12 and 14, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraph 10 and 11 or paragraphs 12 and 14.

Puttable Instruments



10. A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. An instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:

- A. It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:
 - ✓ Dividing the entity's net assets on liquidation into units of equal amount; and
 - ✓ Multiplying that amount by the number of the units held by the financial instrument holder.
 - B. The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:
 - ✓ Has no priority over other claims to the assets of the entity on liquidation; and
 - ✓ Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.
 - C. All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.
 - D. The instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, and it is not a contract that will or may be settled in the federal entity's own equity instruments.
 - E. The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the surplus or deficit, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the federal entity over the life of the instrument.
11. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features (paragraph 10), the issuer must have no other financial instrument or contract that has:
- A. Total cash flows based substantially on the surplus or deficit, the change in the recognized net assets, or the change in the fair value of the recognized and unrecognized net assets of the federal entity; and
 - B. The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

Instruments, or Components of instruments, that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation



12. Some financial instruments include a contractual obligation for the issuing entity to deliver to another entity a pro rata share of its net assets only on liquidation. The obligation arises either because:

- A. Liquidation is certain to occur and outside the control of the federal entity (e.g., a limited life entity); or
- B. Liquidation is uncertain to occur but is at the option of the instrument holder.



13. A financial instrument that was defined in paragraph 12 is classified as an equity instrument if it has all of the following features:

- A. It entitles the holder to a pro rata share of the federal entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:
 - ✓ Dividing the net assets of the Federal entity on liquidation into units of equal amount; and
 - ✓ Multiplying that amount by the number of the units held by the financial instrument holder.
- B. The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:
 - ✓ Has no priority over other claims to the assets of the Federal entity on liquidation; and
 - ✓ Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.
- C. All financial instruments in the class of instruments that is subordinate to all other classes of instruments must have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation.

14. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features (paragraph 13), the issuer must have no other financial instrument or contract that has:

- A. Total cash flows based substantially on the surplus or deficit, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the federal entity; and
- B. The effect of substantially restricting or fixing the residual return to the instrument holders.

Reclassification of Puttable Instruments and Instruments that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation



15. A federal entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 10 and 11 or paragraphs 12 - 14 from the date when the instrument has all the features and meets the conditions set out in those paragraphs. An entity shall reclassify a financial instrument from the date when the instrument ceases to have all of those features.



16. An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 15:

- A. It shall reclassify an equity instrument as a financial liability from the date when the instrument ceases to have all of the features. The financial liability shall be measured at the instrument's fair value at the date of reclassification. The federal entity shall recognize in net assets/equity any difference between the carrying value of the equity instrument and the fair value of the financial liability at the date of reclassification.
- B. It shall reclassify a financial liability as an equity instrument from the date when the instrument has all of the features and meets the conditions set out above. An equity instrument shall be measured at the carrying value of the financial liability at the date of reclassification.

No Contractual Obligation to Deliver Cash or Another Financial Asset (Paragraph 9(A))



- 17. With the exception of the circumstances described in paragraphs 10 and 11 or paragraphs 12 - 14, a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument {the issuer} either to deliver cash or another financial asset to the other party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavorable to the issuer.



- 18. The substance of a financial instrument, rather than its legal form, governs its classification on the federal entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity instruments but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities.
- 19. If a federal entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, except for those instruments classified as equity instruments.
- 20. A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions.

Settlement in the Entity's Own Equity Instruments (Paragraph 9 (B))



- 21. A contract is not an equity instrument solely because it may result in the receipt or delivery of the federal entity's own equity instruments. A federal entity may have a contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that varies so that the fair value of the entity's own equity instruments to be received or delivered equals the amount of the contractual right or obligation. Such a contractual right or obligation may be for a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity's own equity instruments (e.g., an interest rate, or a financial instrument price).



- 22. Except as stated in paragraph 22, a contract that will be settled by the federal entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. Changes in the fair value of a contract arising from variations in market interest rates that do not affect the amount of

cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received is added directly to net assets/equity. Any consideration paid is deducted directly from net assets/equity. Changes in the fair value of an equity instrument are not recognized in the financial statements.

23. A contract that will be settled by the federal entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability.
24. The contract is classified as a financial asset or a financial liability if the equity instruments of the federal entity that will receive or deliver it upon settlement of the contract contain the right to repurchase and have all the features mentioned in paragraphs 10 and 11, or are instruments that impose on the federal entity an obligation to deliver a proportional share of its net shares to another party only upon liquidation and possesses all the advantages mentioned in paragraphs 12-14.
25. A contract that contains an obligation for a federal entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. This is the case even if the obligation to purchase is conditional on the counterparty exercising the right of redemption, except for the circumstances mentioned in paragraphs 10 and 11 or paragraphs 12-14.

Contingent Settlement Provisions

26. A financial instrument may require the federal entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events that are beyond the control of both the issuer and the holder of the instrument, the issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:
 - A. The part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;
 - B. The issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or
 - C. The instrument has all of the features and meets the conditions in paragraphs 10 and 11.

Settlement Options

27. When a derivative financial instrument gives one party a choice over how it is settled, it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.

Compound Financial Instruments



28. The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net assets/equity component. Such components shall be classified separately as financial liabilities, financial assets, or equity instruments in accordance with paragraph 4.



29. Classification of a convertible instrument into its components is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected. The entity's contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument, or some other transaction.

30. When the initial carrying amount of a compound financial instrument is allocated into its components, the net assets/equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features embedded in the compound financial instrument is included in the liability component unless it forms part of the component of net assets/equity. The sum of the carrying amounts assigned to the liability and the net assets/equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

Treasury Shares



31. If an entity reacquires its own equity instruments, those instruments ("treasury shares") shall be deducted from net assets/equity. No gain or loss shall be recognized in surplus or deficit on the purchase, sale, issue, or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the economic entity. Consideration paid or received shall be recognized directly in net assets/equity.

32. The amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with FGAAS 1 "Presentation of Financial Statements". An entity provides disclosure in accordance with FGAAS 20 "Related Party Disclosures" if the entity reacquires its own equity instruments from related parties.

Interest, Dividends or Similar Distributions, Losses, and Gains



33. Interest, dividends or similar distributions, losses, and gains relating to a financial instrument or a component that is a financial liability shall be recognized as revenue or expense in surplus or deficit. Distributions to holders of an equity instrument shall be recognized by the federal entity directly in net assets/equity. Transaction costs incurred on transactions in net assets/equity shall be accounted for as a deduction from net assets/equity.



34. A federal entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs, and stamp duties. Any related transaction costs are accounted for as a deduction from net assets/equity to the

extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. The costs of such a transaction that is abandoned are recognized as an expense.



35. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and the net assets/ equity components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.
36. The amount of transaction costs accounted for as a deduction from net assets/equity in the period is disclosed separately in accordance with FGAAS 1 "Presentation of Financial Statements".
37. Dividends or similar distributions classified as an expense are presented in the statement of financial performance either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, disclosure of interest and dividends or similar distributions is subject to the requirements of FGAAS 1 "Presentation of Financial Statements" and this standard.



38. Gains and losses related to changes in the carrying amount of a financial liability are recognized as revenue or expense in surplus or deficit even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset. Under FGAAS 1 "Presentation of Financial Statements" the federal entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of financial performance.

Offsetting a Financial Asset and a Financial Liability



39. A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, a federal entity:

- A. Currently has a legally enforceable right to set off the recognized amounts; and
- B. Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- C. In accounting for a transfer of a financial asset that does not qualify for derecognition, the federal entity shall not offset the transferred asset and the associated liability



40. This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects a federal entity's expected future cash flows from settling two or more separate financial instruments. When a federal entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability.
41. Offsetting a recognized financial asset and a recognized financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. As offsetting does not give rise to recognition of a gain or loss.



42. A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another and the laws applicable to the relationships between the parties need to be considered.
43. The existence of an enforceable right to set-off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect a federal entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of a federal entity's future cash flows are not affected. When a federal entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed.
44. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.



45. A federal entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating practices, the requirements of the financial markets, and other circumstances that may limit the ability to settle net or to settle simultaneously.
46. Simultaneous settlement of two financial instruments may occur and in these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, a federal entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realization of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.



47. The conditions set out in paragraph 39 are generally not satisfied and offsetting is usually inappropriate when:
- A. Several different financial instruments are used to emulate the features of a single financial instrument (i.e.: "synthetic instrument");
 - B. Financial assets and financial liabilities arise from financial instruments having the same primary risk exposure but involve different counterparties;
 - C. Financial or other assets are pledged as collateral for non-recourse financial liabilities;

- D. Financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation; or
 - E. Obligations included as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.
48. A federal entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements may be commonly used to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 39 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on a federal entity's exposure to credit risk is disclosed.



Standard 41 - Financial Instruments: Recognition and Measurement

Standard 41 - Financial Instruments: Recognition and Measurement

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 41 (IPSAS 41). It is worth mentioning that certain text of standard 41 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of a federal entity's future cash flows.
2. This Standard primarily addresses the following topics:
 - A. Classification of financial instruments by nature and purpose of use;
 - B. Prescribing the key conditions for recognising financial instruments and the bases for measuring each individual class;
 - C. Subsequent measurement of financial instrument in accordance with the relevant class;
 - D. The factors that lead to reclassification of financial instruments and the bases for transfer from one class to another;
 - E. The rules and bases for recognising impairment of financial assets;
 - F. The rules and bases for derecognising financial instruments;

Scope



3. This Standard applies to federal entities covered by the Manual of Accrual Basis of accounting FGAAS as detailed in the Introduction thereto.
4. This standard shall be applied to all types of financial instruments in the federal entity except:
 - A. Those interests in controlled federal entities, associates and joint ventures that are accounted for in accordance with:
 - ✓ FGAAS 35 "Consolidated Financial Statements";
 - ✓ FGAAS 36 "Investments in Associates and Joint Ventures"; and
 - ✓ FGAAS 37 "Joint Arrangements"

Federal entities shall also apply this Standard to derivatives on an interest in a controlled entity, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity.

- B. Rights and obligations under leases to which FGAAS 43, "Leases" applies. However:
 - ✓ Finance lease receivables (i.e., net investments in finance leases) and operating lease receivables recognized by a lessor are subject to the derecognition and impairment requirements of this Standard;
 - ✓ Lease liabilities recognized by a lessee are subject to the derecognition requirements of this Standard; and
 - ✓ Derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.
- C. Employers' rights and obligations under employee benefit plans, to which FGAAS 39 "Employee Benefits" applies.

- D. Rights and obligations arising under contracts covered by other federal government accrual accounting standards, unless that contract includes implicit derivatives or financial guarantees, in which case this standard provides the accounting treatment that the federal entity must adopt for these implicit derivatives or guarantees.
 - E. Loan commitments other than those loan commitments described in paragraph 5. However, an issuer of loan commitments shall apply the impairment requirements of this Standard to loan commitments that are not otherwise within the scope of this Standard. Also, all loan commitments are subject to the derecognition requirements of this Standard.
 - F. Rights to payments to reimburse the federal entity for expenditure that it is required to make to settle a liability that it recognizes as a provision in accordance with FGAAS 19 "Provisions, Contingent liabilities and Contingent Assets".
 - G. The initial recognition and initial measurement of rights and obligations arising from non-exchange revenue transactions to which FGAAS 23 "Revenue from Non-Exchange Transactions".
 - H. Rights and obligations under service concession arrangements to which FGAAS 32 "Service Concession Arrangements: Grantor applies". However, financial liabilities recognized by a grantor under the financial liability model are subject to the derecognition provisions of this Standard.
 - I. The impairment requirements of this Standard shall be applied to those rights arising from FGAAS 9 "Revenue from Exchange Transactions" and FGAAS 23 "Revenue from Non-Exchange Transactions" which give rise to financial instruments for the purposes of recognizing impairment gains or losses.
5. The following loan commitments are within the scope of this Standard:
- A. Loan commitments that the entity designates as financial liabilities at fair value through surplus or deficit. A federal entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class.
 - B. Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in installments.
 - C. Commitments to provide a loan at a below-market interest rate.
6. This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that a federal entity designates as measured at fair value through surplus or deficit in accordance with paragraph 7.

7. A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through surplus or deficit even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the federal entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency that would otherwise arise from not recognizing that contract because it is excluded from the scope of this Standard (see paragraph 6).
8. There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:
 - A. When the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;
 - B. When the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the federal entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
 - C. When for similar contracts, the federal entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and
 - D. When the non-financial item that is the subject of the contract is readily convertible to cash.

Recognition of Financial Instruments



9. A federal entity shall recognise financial assets or financial liabilities in the statement of financial position if, and only if, it is party to the contractual terms of such instruments. A federal entity shall not set off a financial asset and a financial liability and present the net amount in the statement of financial position unless the federal entity:
 - A. Has a legally enforceable right to set off recognised amounts;
 - B. Intends to settle liabilities on a net basis or realise the benefits arising from the asset and settle the relevant liability simultaneously.
10. A federal entity shall use the trade date accounting method when recognising financial instruments traded (sold or purchased) using the regular way of purchase or sale of financial assets.
11. The trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to:
 - A. The Recognition of an asset to be received and the liability to pay for it on the trade date;



- B. Derecognition of a financial asset upon its sale and recognition of any receivables arising from the sale at the trade date.



Example 41.1 - Trade Date Accounting

On March 15, 2022, a federal entity purchased a financial asset for AED 100,000. This amount is the fair value of the financial asset on the contract date (March 15, 2022), and the transaction costs are immaterial.

The financial asset's maturity and liability settlement date is May 30, 2022.

Accordingly, March 15, 2022, is the trade date and May 30, 2022, is the settlement date.

Therefore, the federal entity records the transaction at the trade date as follows:

Initial recognitions on March 15, 2022 (at trade date):

Irrespective of whether the financial assets will be classified as subsequently measured at amortized cost, at fair value through net assets/equity, or at fair value through surplus or deficit, the federal entity initially recognises the asset at AED 100,000 with an associated liability.

Description	Debit	Credit
Financial Asset	100,000	
Liability - Other Payables		100,000

On the transaction settlement date, the federal entity pays the amount of the contractual obligation (liability) and makes the following entry:

Description	Debit	Credit
Liability - Other Payables	100,000	
Cash - Bank Account		100,000

Classification of Financial Instruments

Classification of Financial Assets



12. A federal entity shall classify financial assets as subsequently measured at (unless paragraph 18 applies):

- A. Amortized cost
- B. Fair value through net assets/ equity
- C. Fair value through surplus or deficit



13. A federal entity shall classify financial assets mentioned above based on the following:

- A. The federal entity's management model for financial assets; and
- B. The contractual cash flow characteristics of the financial asset.



14. A financial asset shall be measured at amortized cost if both of the following conditions are met:

- A. The financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and
- B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.



15. A financial asset shall be measured at fair value through net assets/equity if both of the following conditions are met:

- A. The financial asset is held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

16. Principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.



17. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost as per paragraph 14 or at fair value through net assets/equity as per paragraph 15. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through surplus or deficit to present subsequent changes in fair value in net assets/equity.

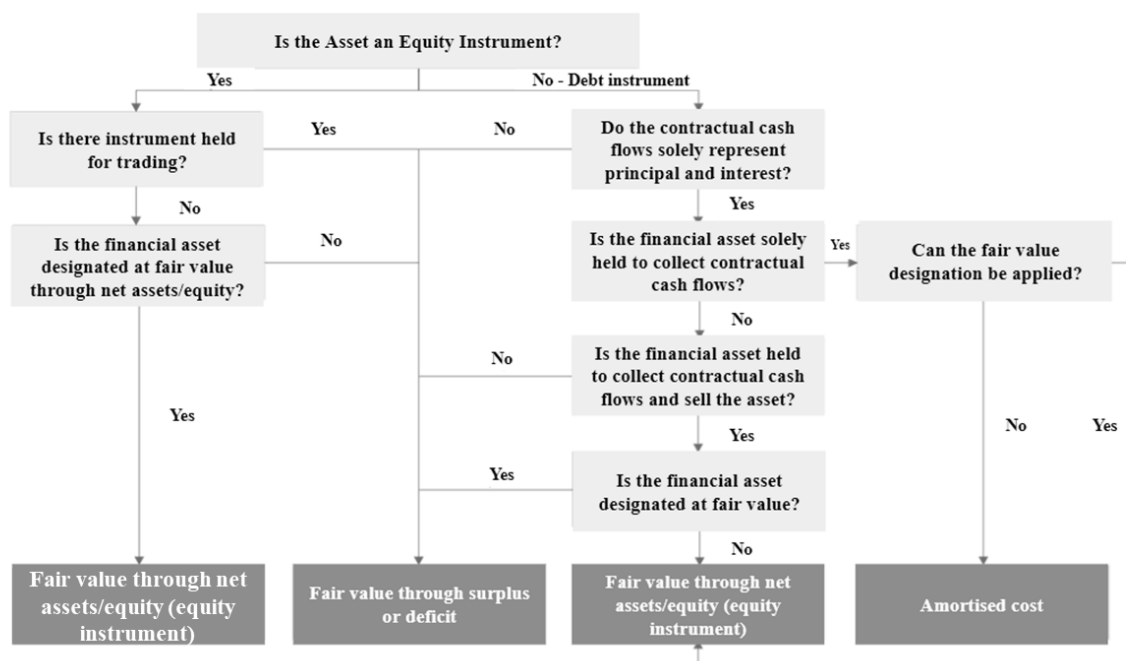
Option to Designate a Financial Asset at Fair Value through Surplus or Deficit



18. A federal entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through surplus or deficit if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Illustrative Decision Tree

The purpose of the decision tree is to summarize the main classification and measurement requirements for financial assets set out in the Standard.



Illustrative Paragraph 41.2 - Management Model whose objective is achieved by both collecting contractual cash flows and selling financial assets

A federal entity may hold financial assets in a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of management model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the management model.

For example, the objective of the management model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding.

Compared to a management model whose objective is to hold financial assets to collect contractual cash flows, this management model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the management model's objective instead of being only incidental to it.

Example 41.3 - Contractual Cash Flows that are Solely Payments of Principal and Interest on the Principal Amount Outstanding

The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

First Example:

Example 41.3 - Contractual Cash Flows that are Solely Payments of Principal and Interest on the Principal Amount Outstanding

Instrument: A bond with a stated maturity date. Payments of principal and interest on the principal amount outstanding are linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged and the principal is protected.

Linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects 'real' interest. Thus, the interest amounts are consideration for the time value of money on the principal amount outstanding.

However, if the interest payments were indexed to another variable such as the debtor's performance (e.g., the debtor's surplus or deficit) or an equity index, the contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the contractual cash flows reflect a return that is inconsistent with a basic lending arrangement.

Second Example:

Instrument: A bond with a stated maturity date and pays a variable market interest rate. That variable interest rate is capped.

The contractual cash flows of both (a) an instrument that has a fixed interest rate and (b) an instrument that has a variable interest rate are payments of principal and interest on the principal amount outstanding as long as the interest reflects consideration for the time value of money, for the credit risk associated with the instrument during the term of the instrument and for other basic lending risks and costs, as well as a profit margin.

Consequently, an instrument that is a bond with an interest rate cap can have cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such a contractual term may reduce cash flow variability by setting a limit on a variable interest rate (e.g., an interest rate cap or floor) or increase the cash flow variability because a fixed rate become variable.

Example 41.4 - Cash Flows that are not solely Payments of Principal and Interest on the Principal Amount Outstanding

The following examples illustrate contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

First Example:

Instrument: A bond that is convertible into a fixed number of equity instruments of the issuer. The contractual cash flows are not payments of principal and interest on the principal amount outstanding because they reflect a return that is inconsistent with a basic lending arrangement; i.e., the return is linked to the value of the equity of the issuer.

Second Example:

Instrument: A loan that pays an inverse floating interest rate (i.e., the interest rate has an inverse relationship to market interest rates).

Example 41.4 - Cash Flows that are not solely Payments of Principal and Interest on the Principal Amount Outstanding

The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. The interest amounts are not consideration for the time value of money on the principal amount outstanding.

Classification of Financial Liabilities

19. A federal entity shall classify all financial liabilities as subsequently measured at amortized cost, except for:
- A. Financial liabilities at fair value through surplus or deficit. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
 - B. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
 - C. Financial guarantee contracts, to which requirements of (A) and (B) do not apply. An issuer of such a contract shall subsequently measure it at the higher of:
 - ✓ The amount of the loss allowance determined; and
 - ✓ The amount initially recognized less, when appropriate, the cumulative amount of amortization recognized in accordance with the principles of FGAAS 9 "Revenue from Exchange Transactions".
 - D. Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall subsequently measure it as illustrated with financial guaranteed contracts (point (C) above)
 - E. Contingent consideration recognized by an acquirer in a public sector combination to which FGAAS 40 "Business Combinations" applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in surplus or deficit.

Option to Designate a Financial Liability at Fair Value through Surplus or Deficit

20. A federal entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through surplus or deficit when permitted by paragraph 25, or when doing so results in more relevant information, because either:
- A. It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
 - B. A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the federal entity's key management personnel.

Embedded Derivatives

21. An embedded derivative is a component of a hybrid (combined) financial instrument that includes a derivative and a non-derivative financial instrument “host contract”, with the same effect on cash flows of the hybrid (combined) instrument and resulting changes as stand-alone derivatives.

**Example 41.5 - Derivatives Contracts**

Nature of Contract	Underlying Variable
Interest rate swaps	Interest rate
Foreign exchange rates swaps	Foreign exchange rate
Credit swaps	Credit rating, credit index or credit price
Foreign exchange rates forwards	Foreign exchange rate
Commodity price forwards	Commodity price

Hybrid Contracts with Financial Asset Hosts

22. If a hybrid contract contains a host that is an asset within the scope of this Standard, a federal entity shall apply the requirements in paragraphs 12 - 18 to the entire hybrid contract.

Other Hybrid Contracts

23. If a hybrid contract contains a host that is not an asset within the scope of this standard, an embedded derivative shall be separated from the host and accounted for as a derivative under this standard if, and only if:
- A. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
 - B. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
 - C. The hybrid contract is not measured at fair value with changes in fair value recognized in the statement of financial performance (i.e., a derivative that is embedded in a financial liability at fair value through surplus or deficit is not separated).



24. If an embedded derivative is separated, the host contract shall be accounted for in accordance with this standard if it meets the definition of the financial instrument, and in accordance with the other FGAAS standards if it is not a financial instrument.



25. Despite paragraphs 23 and 24, if a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard, a federal entity may designate the entire hybrid contract as at fair value through surplus or deficit unless:
- A. The embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or
 - B. It is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited
26. If an entity is required by this Standard to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through surplus or deficit. On this basis, it is not allowed to reclassify. Under these circumstances, the hybrid contract shall be designated at fair value through surplus or deficit.

Example 41.6 - Embedded Derivatives Contracts

Nature of Contract	Host Contract	Embedded Derivative Financial Instrument
A two - year sale contract for a fixed quantity of commodities, with specified minimum and maximum prices	Sale contract	Commodity price bracket
A Euro-denominated commodity sale contract between a federal entity and a	Sale contract	Foreign exchange forward

Example 41.6 - Embedded Derivatives Contracts

foreign party the functional currency of which is other than the Euro		

Measurement**Initial Measurement of Financial Instruments**

27. Except for short-term receivables and payables within the scope of paragraph 30, at initial recognition, a federal entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
28. Transaction costs include incremental costs directly attributable to the purchase, issuance or sale of financial assets or financial liabilities. The incremental cost represents the cost which the federal entity should not have incurred if it did not buy, issue or sell financial instruments. Transaction costs may include fees and commissions paid to advisers, brokers, and dealers. Transaction costs shall not include debt premiums or discounts, financing costs, administrative costs or financial instruments holding costs.



29. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If a federal entity determines that the fair value at initial recognition differs from the transaction price, the federal entity shall account for that instrument at that date as follows:
- A. At the measurement required by paragraph 27 above if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. A federal entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.
 - B. In all other cases, at the measurement required by paragraph 27 above, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the federal entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.
30. Despite the requirement in paragraph 27 above, at initial recognition, a federal entity may measure short-term receivables and payables at the original invoice amount if the effect of discounting is immaterial.



Example 41.7 - Recognition and Initial Measurement of a Financial Instrument with Transaction Costs

A federal entity purchased financial assets classified as “financial assets at fair value through net assets/equity”. On the transaction (trade) date, the asset’s fair value was AED 50,000 and the agent’s commission was AED 2,500, which is to be paid one month after the transaction date. When recognising the asset at the trade date, the federal entity makes the following entry:

Description	Debit	Credit
Asset - Financial Assets at Fair Value through Net Assets/Equity	52,500	
Cash - Bank Account		50,000
Liability - Other Payables (Agent)		2,500

This example will be continued when addressing the remaining topics in this standard (subsequent measurement, impairment and derecognition, as appropriate).

Example 41.8 - Recognition and Initial Measurement of a Financial Asset through Surplus or Deficit

On November 15, 2022, the Ministry of Finance acquired shares for the value of AED 25,000 in an insurance company listed on Abu Dhabi Securities Exchange. The transaction costs were AED 2,000. The Ministry decided that these shares are held for trading and, accordingly, classified them as financial assets through surplus or deficit. Therefore, the federal entity will not include the transaction costs in the asset’s value on initial recognition.

Therefore, on initial recognition at the trade date, the federal entity makes the following entry:

Description	Debit	Credit
Financial Asset through Surplus or Deficit	25,000	
Cash - Bank Account		25,000



Example 41.9 - Recognition and Initial Measurement of Receivables

On February 15, 2022, a federal entity sold commodities to a private company for AED 100,000 to be collected on March 30, 2022.

Accordingly, on the trade date, the federal entity makes the following entry:

Description	Debit	Credit
Receivables - Financial Assets at Amortised Cost	100,000	
Revenue from an Exchange Transaction		100,000

This example will be continued when addressing the remaining topics in this standard (subsequent measurement, impairment and derecognition, as appropriate).

**Example 41.10 - Recognition and Initial Measurement of Loans Granted by a Federal Entity**

On January 1, 2022, in the context of encouraging medium-sized enterprises, a federal entity granted a private establishment an interest-free loan of AED 500,000 to be repaid in annual instalments over the next five years. The current market interest rate for loans with similar characteristics for the same amount provided by the federal entity was estimated at 8%.

First Step: The federal entity determines the loan's fair value by determining the current value of future payments using the current interest rate.

The current value of future payments related to this loan is calculated as follows:

- ✓ Amounts collected per year: AED 100,000
- ✓ Current market interest rate: 8%
- ✓ Number of years: 5
- Current value of future payments = $100,000 \times ((1 - [1.08]^{-5}) / 0.08) = 399,271^*$

Where:

$$P \left[\frac{1 - (1 + r)^{-n}}{r} \right]$$

P: Amount collected per year
r: Current market interest rate
n: Number of years or payments

On initial recognition, the federal entity makes the following entry:

Description	Debit	Credit
Financial Asset at Amortised Cost - Loan	399,271	
Expense - Concessionary Loans Granted	100,729	
Cash - Bank Account		500,000

This example will be continued when addressing the remaining topics in this Standard (subsequent measurement, impairment and derecognition, as appropriate).





Example 41.11 - Recognition and Initial Measurement of a Financial Liability

During the current year, the Ministry of Finance received a concessionary loan of AED 500 million from the Central Bank of the UAE for infrastructure development purposes in a specific area over the next four years.

It was agreed to repay the loan over the next five years as follows:

Year 1	Nil
Year 2	10%
Year 3	20%
Year 4	30%
Year 5	40%

The current interest rate on similar loans in the financial market is 8%.

Accordingly, the Ministry of Finance records the transaction as follows:

1. Determining the difference between the interest calculated based on the interest rate applicable to the loan and the current market interest rate for similar loans:

The current value of future payments related to this loan is calculated as follows:

Year	Payable Percentage of the Loan	Payment Amount AED 5 million x the Percentage	Current Payment value $(\frac{\text{Payment Amount}}{1.08^{\text{Number of Years}}})$	Difference
Year 1	0%	-	-	
Year 2	10%	50,000,000	42,866,941	
Year 3	20%	100,000,000	79,383,224	
Year 4	30%	150,000,000	110,254,478	
Year 5	40%	200,000,000	136,116,639	
Total	100%	500,000,000	368,621,282	131,378,718

Therefore, the loan's fair value is AED 368,621,282 and, accordingly, the difference of AED 131,378,718 is regarded as revenue from non-exchange transactions.

2. On entering into the agreement: Initial recognition of the cash amount received from the Central Bank, the loan and the revenue related to the non-exchange portion of the transaction:

Description	Debit	Credit
Cash - Bank	500,000,000	
Financial Liability - Loan		368,621,282
Revenue from a Non-exchange Transaction		131,378,718

This example will be continued when addressing the remaining topics in this Standard (subsequent measurement, impairment and derecognition, as appropriate).



Example 41.12 - Recognition and Initial Measurement - Receipt of a Concessionary Loan (Interest Concession)

A federal entity receives loan funding to the value of AED 5 million to build primary healthcare clinics over a period of 5 years.

The agreement stipulates that the loan is to be repaid over the 5-year period as follows:

Year 1	No principal repayments
Year 2	10% of the principal
Year 3	20% of the principal
Year 4	30% of the principal
Year 5	40% of the principal

Interest is paid annually in arrears, at a rate of 5% per annum on the outstanding balance of the loan. A market-related rate of interest for a similar transaction is 10%.

Analysis:

The federal entity has received a concessionary loan of 5 million, which will be repaid at 5% below the current market interest rate. The difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market-related rate of interest, is recognized in accordance with FGAAS 23 "Revenue from Non-Exchange Transactions".

Accordingly, the federal entity records the transaction as follows:

1. Determining the difference between the interest calculated based on the interest rate applicable to the loan and the current market interest rate for similar loans:

Table 1 - Amortisation Schedule (Using Contractual Repayments at 5% Interest)

Year	Principal	Interest	Payments	Balance
Year 0	5,000,000	-	-	5,000,000
Year 1	5,000,000	50,000	(250,000)	5,000,000
Year 2	5,000,000	50,000	(750,000)	4,500,000
Year 3	4,500,000	25,000	(1,225,000)	3,500,000
Year 4	3,500,000	175,000	(1,675,000)	2,000,000
Year 5	2,000,000	100,000	(2,100,000)	-

Table 2 - Discounting Contractual Cash Flows (Based on a Market Rate of 10%)

Year	Principal	Interest	Payments	Present value of payments
Year 1	5,000,000	50,000	50,000	227,272
Year 2	4,500,000	50,000	50,000	619,835
Year 3	3,500,000	25,000	1,225,000	920,360
Year 4	2,000,000	175,000	1,675,000	1,144,048
Year 5	-	100,000	2,100,000	1,303,935



Example 41.12 - Recognition and Initial Measurement - Receipt of a Concessionary Loan (Interest Concession)

Total present value of payments				4,215,450

Therefore, the loan's fair value is AED 4,215,450 and, accordingly, the difference of AED 784,550 is regarded as revenue from non-exchange transactions.

2. On entering into the agreement: Initial recognition of the cash amount received, the loan and the revenue related to the non-exchange portion of the transaction:

Description	Debit	Credit
Cash - Bank	5,000,00	
Financial Liability - Loan		4,215,450
Revenue from a Non-exchange Transaction		784,550

This example will be continued when addressing the remaining topics in this Standard (subsequent measurement, impairment and derecognition, as appropriate).

Subsequent Measurement of Financial Assets



31. Subsequent measurement of an asset depends on the category to which it belongs. After initial recognition, a federal entity shall measure a financial asset at:

- A. Amortized cost;
- B. Fair value through net assets/equity; or
- C. Fair value through surplus or deficit.

32. A federal entity shall apply the impairment requirements in paragraphs 44-65 to financial assets that are measured at amortized cost and to financial assets that are measured at fair value through net assets/equity.

33. A federal entity shall apply the hedge accounting requirements to financial assets that are designated as a hedged item.

Subsequent Measurement of Financial Liabilities



34. After initial recognition, a federal entity shall measure a financial liability according to the measurement and classification requirements of paragraphs 19-20.

35. A federal entity shall apply the hedge accounting requirements in paragraphs 136-141 to financial assets that are designated as a hedged item.



Example 41.13 - Subsequent Measurement - Receipt of a Concessionary Loan (Interest Concession)

Further to the previous example

The federal entity determines the amounts of borrowing costs based on the actual interest rate, and it also determines the carrying amount of the loan (reducing the liabilities by following amortized cost method) after paying the related amounts.

Year	Principal	Accrued Interest	Interest payments	Principal Payments	Balance
Year 1	4,215,450	421,545	50,000)(2	-	4,386,995
Year 2	4,386,995	438,700	50,000)(2	(500,000)	4,075,695
Year 3	4,075,695	407,569	25,000)(2	(1,000,000)	3,258,264
Year 4	3,258,264	325,827	175,000)(	(1,500,000)	1,909,091
Year 5	1,909,091	190,909	100,000)(	(2,000,000)	-

On this basis, the federal entity records the following entries at the end of the Year 1:

Description	Debit	Credit
Expenses - Borrowing costs	421,545	
Financial Liability - Loan		421,545

Recognition of interest using the effective interest method (AED 4,215,450 × 10%)

Description	Debit	Credit
Financial Liability - Loan	250,000	
Cash - Bank		250,000

Recognition of interest paid on outstanding balance (AED 5,000,000 × 5%)

At the end of the Year 2 and upon payment of the first instalment of the loan, the entries are as follows:

Description	Debit	Credit
Expenses - Borrowing costs	438,700	
Financial Liability - Loan		438,700

Recognition of interest using the effective interest method (AED 4,386,995 × 10%)

Description	Debit	Credit
Financial Liability - Loan	750,000	
Cash - Bank		750,000

Recognition of interest and principal paid on outstanding balance (AED 5,000,000 × 5% + AED 500,000)

Fair Value Measurement Considerations

36. A federal entity shall determine fair value in the following order:
- a. Quoted price in an active market: A market is active when quoted prices readily and regularly reflect normal transactions in the market, including information from any exchange, dealer, broker, industry group, pricing service or regulatory agency. The quoted market price for any asset held or liability to be issued normally represents the current offer price. For any asset to be acquired or liability held, the quoted market price represents the current bid or asking price. If current offer and bid prices are unavailable, the most recent transaction price provides evidence of the current fair value as long as there has not been a significant change in economic circumstances between the transaction and reporting dates;
 - b. Valuation techniques: A federal entity shall use valuation techniques if the market for a financial instrument is not active. Valuation techniques include:
 - ✓ Using recent market transactions between knowledgeable and willing parties, if any;
 - ✓ Reference to the current fair value of another financial instrument that is substantially the same as the one which the federal entity is determining the fair value for;
 - ✓ Analysis of the current value of cash flows by estimating the current value of future cash flows from the financial instrument over the contract term, using market interest rate;
 - ✓ Option pricing models that are used for particular types of financial instruments (e.g., offer or purchase options).
37. When using valuation techniques, a federal entity shall make maximum use of market inputs and rely as little as possible on entity-specific information.
38. Periodically, a federal entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.
39. The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**Example 41.14 - Determining Fair value**

A federal entity owns an investment in a private establishment which it classified as “financial assets at fair value through net assets/equity”. The shares of the establishment in question are quoted in two different active markets and the federal entity can obtain information relating to these shares from both markets.

On the reporting date, the federal entity collects the following information:

- ✓ Share price in the first active market is estimated at AED 55 and transaction costs are estimated at AED 5 (the net amount collectible by the federal entity is AED 50 per share)

Example 41.14 - Determining Fair value

- ✓ Share price in the second active market is estimated at AED 60 and transaction costs are estimated at AED 12 (the net amount collectible by the federal entity is AED 48 per share)

Accordingly, the first market is the most appropriate market to trade the share in question. Therefore, the fair value is determined for this share in order to recognise related changes based on information from the first market, i.e. the fair value of the share is AED 55 (for financial reporting purposes, transaction costs shall not be considered when recognising changes in subsequent measurement).

Amortized Cost Measurement***Financial Assets*****Effective Interest Method**

40. Interest revenue (with regards to financial assets) shall be calculated by using the effective interest method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
- a. Purchased or originated credit-impaired financial assets. For those financial assets, the federal entity shall apply the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - b. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the federal entity shall apply the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.



41. A federal entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortized cost of a financial asset in accordance with paragraph (B) above, shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph (B) were applied (such as an improvement in the borrower's credit rating).

Example 41.15 - Determining Effective Interest Rate

On January 1, 2013, a federal entity issued cash treasury bonds for the value of AED 9,000,000 at an annual interest rate of 10%, such that the interest and principal amount are collectible at the end of the third year.

Accordingly, the federal entity determines the effective interest rate by equalising the following formula:

The current value of cash flows from settlement of the financial instruments and	=	The initially recognised amount



Example 41.15 - Determining Effective Interest Rate

related interest expected over the anticipated life of the financial instrument		
$\frac{9,000,000 + 9,000,000 * 10\% * 3}{(1 + x)^3}$	=	9,000,000

Using a financial calculator, the effective interest rate x is determined and, in this case, is approximately 9.14 %

**Example 41.16 - Measuring the Effective Interest Rate of a Bond Issued at a Discount with Transaction Costs**

A federal entity issues a 3-year bond with a face value of AED 500,000. The instrument carries a fixed yield of 4%, with interest payments paid annually. The bond was issued at a discount of 2% and the federal entity was required to pay the bond underwriters a fee equal to AED 12,000 on the transaction date.

Accordingly, the federal entity determines the effective interest rate by equalising the following formula:

The current value of cash flows from settlement of the financial instruments and related interest expected over the anticipated life of the financial instrument (1)	=	The initially recognised amount (2)

1. The estimated future cash flows are AED 560,000 composed of AED 20,000 per annum in interest payments ($500,000 \times 4\% = \text{AED } 20,000$), with an additional AED 500,000 principal payment made at maturity.

$$500,000 + 500,000 * 4\% * 3 = 560,000$$

2. The gross carrying amount of the bond on the transaction date is calculated based on the net proceeds received by the federal entity. Since the bond was issued at a discount, before transaction costs, the federal entity received AED 490,000 ($\text{AED } 500,000 \times (100\% - 2\%)$). Taking transaction costs into account, the net proceeds on issue were AED 478,000 ($\text{AED } 490,000 - \text{AED } 12,000$).

Accordingly, the federal entity determines the effective interest rate by equalising the following formula:

$\frac{500,000 + 500,000 * 4\% * 3}{(1 + x)^3}$	=	478,000

Using a financial calculator, the effective interest rate x is determined and, in this case, is approximately 5.02 %

Modification of Contractual Cash Flows

42. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, a federal entity shall recalculate the gross carrying amount of the

financial asset and shall recognize a modification gain or loss in surplus or deficit. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

Write-off

- 
43. A federal entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

Impairment

Recognition of Expected Credit Losses - General Approach

- 
44. A federal entity shall recognize a loss allowance for expected credit losses on a financial asset that is measured at amortised cost or fair value through net assets/equity, a lease receivable, or a loan commitment and a financial guarantee contract to which the impairment requirements apply.
- 
45. A federal entity shall apply the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through net assets/equity. However, the loss allowance shall be recognized in net assets/equity and shall not reduce the carrying amount of the financial asset in the statement of financial position.
- 
46. At each reporting date, a federal entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.
47. The objective of the impairment requirements is to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward-looking.
- 
48. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, a federal entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.
49. For loan commitments and financial guarantee contracts, the date that the federal entity becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.
50. If a federal entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period but determines at the current reporting date that write off requirement is no longer met, the federal entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.



51. A federal entity shall recognize in surplus or deficit, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with this Standard.

Determining Significant Increases in Credit Risk



52. At each reporting date, a federal entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, a federal entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, a federal entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.
53. A federal entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.
54. If reasonable and supportable forward-looking information is available without undue cost or effort, a federal entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward- looking than past due status is not available without undue cost or effort, a federal entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition.
55. A federal entity can rebut the presumption - the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due - if the federal entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When a federal entity determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

Modified Financial Assets



56. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognized, a federal entity shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:
- A. The risk of a default occurring at the reporting date (based on the modified contractual terms); and
 - B. The risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

Purchased or Originated Credit-Impaired Financial Assets

57. At the reporting date, a federal entity shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.
58. At each reporting date, a federal entity shall recognize in surplus or deficit the amount of the change in lifetime expected credit losses as an impairment gain or loss. A federal entity shall recognize favorable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Simplified Approach for Receivables



59. A federal entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:
 - A. Receivables that result from exchange transactions that are within the scope of FGAAS 9 and non-exchange transactions within the scope of FGAAS 23.
 - B. Lease receivables that result from transactions that are within the scope of FGAAS 43, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.
60. A federal entity may select its accounting policy for trade receivables and lease receivables independently of each other.
61. The requirements for purchased or originated credit-impaired financial assets do not apply to short-term receivables.

Measurement of Expected Credit Losses



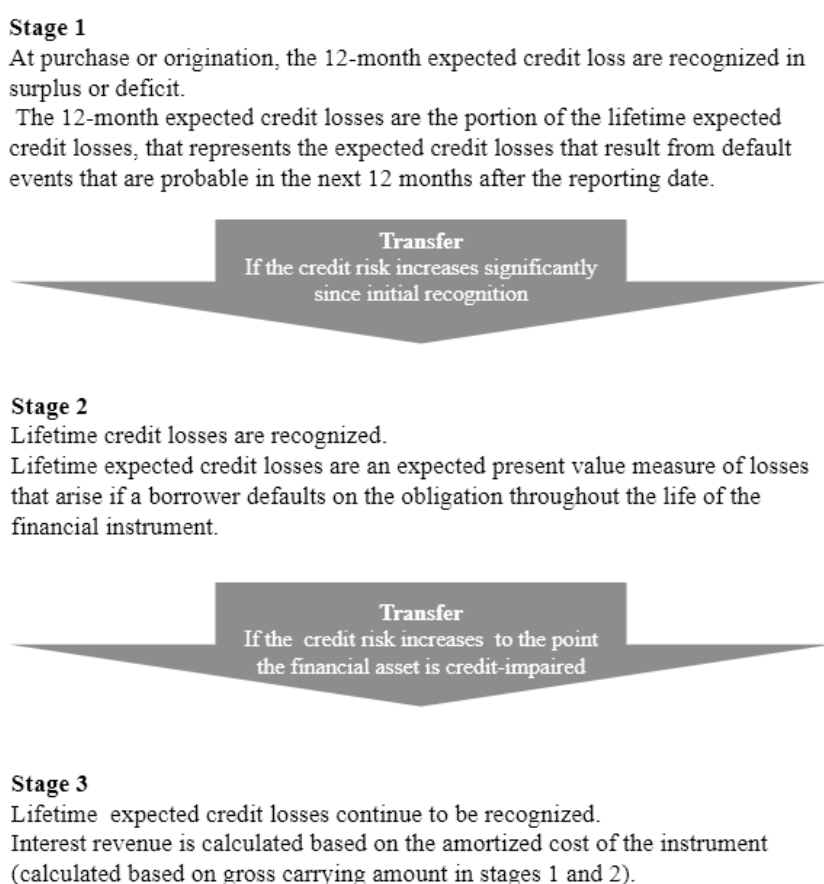
62. A federal entity shall measure expected credit losses of a financial instrument in a way that reflects:
 - A. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
 - B. The time value of money; and
 - C. Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
63. When measuring expected credit losses, a federal entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.
64. The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the federal entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.



65. However, some financial instruments include both a loan and an undrawn commitment component and the federal entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the federal entity's exposure to credit losses to the contractual notice period. For such financial instruments, and only those financial instruments, the federal entity shall measure expected credit losses over the period that the entity is exposed to credit risk and expected credit losses would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

Diagram of the stages of impairment

The diagram below outlines the stages of impairment. However, the figure omits more intricate situations - such as originated or purchased credit impaired financial assets - to reduce the complexity of the diagram.





Example 41.17 - 12-Month Expected Credit Loss Measurement Using an Explicit 'Probability of Default' Approach

A federal entity originates a single 10-year amortizing loan for AED 1 million.

Taking into consideration the expectations for instruments with similar credit risk (using reasonable and supportable information that is available without undue cost or effort), the credit risk of the borrower, and the economic outlook for the next 12 months, the federal entity estimates that the loan at initial recognition has a probability of default (PD) of 5% over the next 12 months.

The entity also determines that changes in the 12-month PD are a reasonable approximation of the changes in the lifetime PD for determining whether there has been a significant increase in credit risk since initial recognition.

At the reporting date (which is before payment on the loan is due), there has been no change in the 12-month PD and the federal entity determines that there was no significant increase in credit risk since initial recognition. The federal entity determines that 2.5% of the gross carrying amount will be lost if the loan defaults (i.e., the LGD is 2.5%).

First Step: The federal entity measures the loss allowance at an amount equal to 12-month expected credit losses using the 12-month PD approach using the following equation:

Loan Amount x 12-month Probability of Default x Loss Given Default

AED 1,000,000 × 5% × 2.5% = AED 1,250.



Example 41.18 - 12-Month Expected Credit Loss Measurement based on a Loss Rate Approach

A federal entity originates 2,000 bullet loans with a total gross carrying amount of AED 500,000. The federal entity segments its portfolio into borrower groups (Groups X and Y) on the basis of shared credit risk characteristics at initial recognition.

Group X comprises 1,000 loans with a gross carrying amount per borrower of AED 200, for a total gross carrying amount of AED 200,000.

Group Y comprises 1,000 loans with a gross carrying amount per borrower of AED 300, for a total gross carrying amount of AED 300,000.

There are no transaction costs and the loan contracts include no options (for example, prepayment or call options), premiums or discounts, points paid, or other fees.

The federal entity measures expected credit losses on the basis of a loss rate approach for Groups X and Y. In order to develop its loss rates, The federal entity considers samples of its own historical default and loss experience for those types of loans. In addition, the federal entity considers forward-looking information, and updates its historical information for current economic conditions as well as reasonable and supportable forecasts of future economic conditions.

First Step: The federal entity measures expected credit losses for Groups X and Y using the following table:

Number of clients in sample	Estimated per client gross	Total estimated gross	Historic per annum	Estimated total gross carrying	Present value of	Loss rate

Example 41.18 - 12-Month Expected Credit Loss Measurement based on a Loss Rate Approach

		carrying amount at default	carrying amount at default	average defaults	amount at default	observed loss (a)	
Group	A	B	C = A x B	D	E = B x D	F	G = F ÷ C
X	1,000	AED 200	AED 200,000	4	AED 800	AED 600	0.3%
Y	1,000	AED 200	AED 300,000	2	AED 600	AED 450	0.15%

- a. In accordance with paragraph 90 expected credit losses should be discounted using the effective interest rate. However, for purposes of this example, the present value of the observed loss is assumed.

Based on the table above, for a population of 1,000 loans in each group, Group X's loss rates are 0.3 percent, based on four defaults, and historical loss rates for Group Y are 0.15 percent, based on two defaults.

Second Step: The federal entity measures the 12-month Expected Credit Loss based on a loss rate approach as follows:

Loan Amount x Loss rate

12-Month Expected Credit Loss for Group X: $0.3\% \times \text{AED } 200,000 = \text{AED } 600$

12-Month Expected Credit Loss for Group Y: $0.15\% \times \text{AED } 300,000 = \text{AED } 450$

The federal entity shall update the loss rate on an annual basis after taking into consideration that default that have taken place during the period.

Reclassification

General



66. When, and only when, a federal entity changes its management model for financial assets it shall reclassify all affected financial assets.

67. A federal entity shall not reclassify any financial liability.



68. The following changes in circumstances are not reclassifications:

- A. An item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- B. An item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- C. Changes in measurement.

Reclassification of Financial Assets



69. If a federal entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The federal entity shall not restate any previously recognized gains, losses (including impairment gains or losses) or interest. The paragraphs below set out the requirements for reclassifications.



70. If a federal entity reclassifies a financial asset out of the amortized cost measurement category and into the fair value through surplus or deficit measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in surplus or deficit.



71. If a federal entity reclassifies a financial asset out of the fair value through surplus or deficit measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.



72. If a federal entity reclassifies a financial asset out of the amortized cost measurement category and into the fair value through net assets/equity measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in net assets/equity. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.



73. If a federal entity reclassifies a financial asset out of the fair value through net assets/equity measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in net assets/equity is removed from net assets/ equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects net assets/equity but does not affect surplus or deficit and therefore is not a reclassification adjustment (see FGAAS 1 "Presentation of Financial Statements"). The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.



74. If a federal entity reclassifies a financial asset out of the fair value through surplus or deficit measurement category and into the fair value through net assets/equity measurement category, the financial asset continues to be measured at fair value.



75. If a federal entity reclassifies a financial asset out of the fair value through net assets/equity measurement category and into the fair value through surplus or deficit measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in net assets/equity is reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see FGAAS 1 "Presentation of Financial Statements") at the reclassification date.



Example 41.19 - Reclassification of Financial Assets

This example illustrates the accounting requirements for the reclassification of financial assets between measurement categories. The example illustrates the interaction with the impairment requirements.

A federal entity purchases a portfolio of bonds for its fair value (gross carrying amount) of AED 500,000. The entity changes the management model for managing the bonds. The fair value of the portfolio of bonds at the reclassification date is AED 490,000.

If the portfolio was measured at amortized cost or at fair value through net assets/equity immediately prior to reclassification, the loss allowance recognized at the date of reclassification would be AED 6,000.

The 12-month expected credit losses at the reclassification date are AED 4,000 (Note: For simplicity purposes, journal entries for the recognition of interest revenue are not provided).

Scenario 1: Reclassification Out of the Amortized Cost Measurement Category and into the Fair Value through Surplus or Deficit Measurement Category

A federal entity reclassifies the portfolio of bonds out of the amortized cost measurement category and into the fair value through surplus or deficit measurement category. At the reclassification date, the portfolio of bonds is measured at fair value. Any gain or loss arising from a difference between the previous amortized cost amount of the portfolio of bonds and the fair value of the portfolio of bonds is recognized in surplus or deficit on reclassification.

On this basis, the federal entity recorded the following entry on the date of reclassification to recognize the reclassification of the bonds and to derecognise the loss allowance.

Description	Debit	Credit
Bonds (Fair Value Through Surplus or Deficit assets)	490,000	
Bonds (gross carrying amount of the amortized cost assets)		500,000
Loss Allowance	6,000	
Reclassification loss (surplus or deficit)	4,000	

Scenario 2: Reclassification Out of the Fair Value through Surplus or Deficit Measurement Category and into the Amortized Cost Measurement Category

Example 41.19 - Reclassification of Financial Assets

A federal entity reclassifies the portfolio of bonds out of the fair value through surplus or deficit measurement category and into the amortized cost measurement category. At the reclassification date, the fair value of the portfolio of bonds becomes the new gross carrying amount and the effective interest rate is determined based on that gross carrying amount.

The impairment requirements apply to the bond from the reclassification date. For the purposes of recognizing expected credit losses, the credit risk of the portfolio of bonds at the reclassification date becomes the credit risk against which future changes in credit risk shall be compared.

On this basis, the entity recorded the next entry on the reclassification date to recognize the reclassification of bonds and to start accounting for impairment.

Description	Debit	Credit
Bonds (Gross Carrying Amount of the amortized cost assets)	490,000	
Bonds (Fair Value Through Surplus or Deficit assets)		490,000
Impairment loss (surplus or deficit)	4,000	
Loss allowance		4,000

Scenario 3: Reclassification Out of the Amortized Cost Measurement Category and into the Fair Value through Net Assets/Equity Measurement Category

A federal entity reclassifies the portfolio of bonds out of the amortized cost measurement category and into the fair value through net assets/equity measurement category. At the reclassification date, the portfolio of bonds is measured at fair value. Any gain or loss arising from a difference between the previous amortized cost amount of the portfolio of bonds and the fair value of the portfolio of bonds is recognized in net assets/equity.

The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. The credit risk at initial recognition continues to be used to assess changes in credit risk. From the reclassification date the loss allowance ceases to be recognized as an adjustment to the gross carrying amount of the bond and is recognized as an accumulated impairment amount, which would be disclosed.

On this basis, the entity recorded the next entry on the reclassification date to recognize the reclassification of bonds, however, the measurement of expected credit losses did not change.

Description	Debit	Credit
Bonds (Fair Value Through Net Assets/Equity assets)	490,000	
Bonds (gross carrying amount of amortized cost assets)		500,000
Loss allowance	6,000	
Net Assets/Equity*	4,000	

Example 41.19 - Reclassification of Financial Assets

*For simplicity, the amount related to impairment is not shown separately. If it had been, this journal entry would be split into the following two entries:

Description	Debit	Credit
Net Assets/Equity (fair value changes)	10,000	
Net Assets/Equity (accumulated impairment amount).		6,000

Scenario 4: Reclassification Out of the Fair Value through Net Assets/Equity Measurement Category and into the Amortized Cost Measurement Category

A federal entity reclassifies the portfolio of bonds out of the fair value through net assets/equity measurement category and into the amortized cost measurement category.

The portfolio of bonds is reclassified at fair value. However, at the reclassification date, the cumulative gain or loss previously recognized in net assets/equity is removed from net assets/equity and adjusted against the fair value of the portfolio of bonds. As a result, the portfolio of bonds is measured at the reclassification date as if it had always been measured at amortized cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. The credit risk at initial recognition continues to be used to assess changes in the credit risk on the bonds. The loss allowance is recognized as an adjustment to the gross carrying amount of the bond (to reflect the amortized cost amount) from the reclassification date.

On this basis, the entity recorded the next entry on the reclassification date to recognize the reclassification of bonds, including the recognition of the discounted loss allowance to re-determine the amount of the amortization cost. However, the measurement of expected credit losses remains unchanged.

Description	Debit	Credit
Bonds (gross carrying value of the amortized cost assets)	500,000	
Bonds (Fair Value Through Net Assets/Equity assets)		490,000
Loss allowance		6,000
Net Assets/Equity		4,000

The cumulative loss in net assets/equity at the reclassification date was AED 4,000. That amount consists of the total fair value change of AED 10,000 (i.e., AED 500,000 - 490,000) offset by the accumulated impairment amount recognized (AED 6,000) while the assets were measured at fair value through net assets/equity.

Scenario 5: Reclassification Out of the Fair Value through Surplus or Deficit Measurement Category and into the Fair Value Through Net Assets/Equity Measurement Category

A federal entity reclassifies the portfolio of bonds out of the fair value through surplus or deficit measurement category and into the fair value through net assets/equity measurement category. The portfolio of bonds continues to be measured at fair value.

Example 41.19 - Reclassification of Financial Assets

However, for the purposes of applying the effective interest method, the fair value of the portfolio of bonds at the reclassification date becomes the new gross carrying amount and the effective interest rate is determined based on that new gross carrying amount. The impairment requirements apply from the reclassification date. For the purposes of recognizing expected credit losses, the credit risk of the portfolio of bonds at the reclassification date becomes the credit risk against which future changes in credit risk shall be compared.

On this basis, the entity recorded the next entry on the reclassification date to recognize the reclassification of bonds, including the commencement of accounting for impairment.

(The net assets/equity amount reflects the loss allowance at the date of reclassification (an accumulated impairment amount relevant for disclosure purposes) of CU4,000.)

Description	Debit	Credit
Bonds (Fair Value Through Net Assets/Equity assets)	490,000	
Bonds (Fair Value Through Surplus or Deficit assets)		490,000
Impairment loss (surplus or deficit)	4,000	
Net Assets/Equity		4,000

Scenario 6: Reclassification Out of the Fair Value through Net Assets/Equity Measurement Category and into the Fair Value Through Surplus or Deficit Measurement Category

A federal entity reclassifies the portfolio of bonds out of the fair value through net assets/equity measurement category and into the fair value through surplus or deficit measurement category. The portfolio of bonds continues to be measured at fair value. However, the cumulative gain or loss previously recognized in net assets/equity is reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see "Presentation of Financial Statements" FGAAS).

On this basis, the entity recorded the following entry on the reclassification date to recognize the reclassification of bonds.

Description	Debit	Credit
Bonds (Fair Value Through Surplus or Deficit assets)	490,000	
Bonds (Fair Value Through Net Assets/Equity assets)		490,000
Reclassification loss (surplus or deficit)	4,000	
Net Assets/Equity*		4,000

*The cumulative loss in net assets/equity at the reclassification date was AED 4,000. That amount consists of the total fair value change of AED 10,000 (i.e., AED 500,000 - 490,000) offset by the loss allowance that was recognized (AED 6,000) while the assets were measured at fair value through net assets/equity.

Gains and Losses

76. A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognized in surplus or deficit unless:
- A. It is part of a hedging relationship;
 - B. It is an investment in an equity instrument and the federal entity has elected to present gains and losses on that investment in net assets/ equity;
 - C. It is a financial liability designated as at fair value through surplus or deficit and the federal entity is required to present the effects of changes in the liability's credit risk in net assets/equity; or
 - D. It is a financial asset measured at fair value through net assets/ equity and the entity is required to recognize some changes in fair value in net assets/equity.



77. Dividends or similar distributions are recognized in surplus or deficit only when:
- A. The federal entity's right to receive payment of the dividend is established;
It is probable that the economic benefits associated with the dividend will flow to the federal entity; and
The amount of the dividend can be measured reliably.
78. A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging relationship shall be recognized in surplus or deficit when the financial asset is derecognized, reclassified, through the amortization process or in order to recognize impairment gains or losses. A federal entity shall apply reclassification requirements above if it reclassifies financial assets out of the amortized cost measurement category. A gain or loss on a financial liability that is measured at amortized cost and is not part of a hedging relationship shall be recognized in surplus or deficit when the financial liability is derecognized and through the amortization process.
79. A gain or loss on financial assets or financial liabilities that are hedged items in a hedging relationship shall be recognized.

Investments in Equity Instrument

80. At initial recognition, a federal entity may make an irrevocable election to present in net assets/equity subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination. If a federal entity makes the election in this paragraph, it shall recognize in surplus or deficit dividends or similar distributions from that investment.

Liabilities Designated as at Fair Value through Surplus or Deficit

81. A federal entity shall present a gain or loss on a financial liability that is designated as at fair value through surplus or deficit as follows:

- A. The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in net assets/equity, and
 - B. The remaining amount of change in the fair value of the liability shall be presented in surplus or deficit unless the treatment of the effects of changes in the liability's credit risk described in (A) would create or enlarge an accounting mismatch in surplus or deficit.
82. If the requirements in paragraph 81 would create or enlarge an accounting mismatch in surplus or deficit, a federal entity shall present all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in surplus or deficit.
83. Despite the requirements in paragraphs 81 and 82, a federal entity shall present in surplus or deficit all gains and losses on loan commitments and financial guarantee contracts that are designated as at fair value through surplus or deficit.

Assets Measured at Fair Value through Net Assets/Equity



84. A gain or loss on a financial asset measured at fair value through net assets/ equity shall be recognized in net assets/ equity, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified. When the financial asset is derecognized the cumulative gain or loss previously recognized in net assets/equity is reclassified from net assets/equity to surplus or deficit as a reclassification adjustment (see FGAAS 1 "Presentation of Financial Statements"). If the financial asset is reclassified out of the fair value through net assets/equity measurement category, the federal entity shall account for the cumulative gain or loss that was previously recognized in net assets/ equity. Interest calculated using the effective interest method is recognized in surplus or deficit.
85. If a financial asset is measured at fair value through net assets/equity, the amounts that are recognized in surplus or deficit are the same as the amounts that would have been recognized in surplus or deficit if the financial asset had been measured at amortized cost.

Derecognition of Financial Instruments

Derecognition of a Financial Asset



86. Normally, a federal entity derecognises financial assets in their entirety by recording the difference between the derecognised carrying amount and the consideration received in the statement of financial performance (taking into consideration any cumulative gains or losses recognised directly in net assets and not recognised in the statement of financial performance, if any). When a federal entity derecognises part of a financial asset, the financial asset's carrying amount shall be allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts on the date of the transfer. The federal entity shall recognise the difference between the carrying amount of the part that is derecognised and the consideration received in the statement of financial performance (the federal entity shall also derecognise cumulative gains or losses in net assets and recognise them in the statement of financial performance, only for the amount related to the part that is derecognised).

87. In consolidated financial statements, paragraphs below (88-93) are applied at a consolidated level. Hence, a federal entity first consolidates all controlled entities in accordance with FGAAS 35 "Consolidated Financial Statements" and then applies the paragraphs below to the resulting economic entity.



88. Before evaluating whether, and to what extent, derecognition is appropriate a federal entity determines whether derecognition should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows:

- A. Derecognition applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions:
 - ✓ The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when a federal entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument.
 - ✓ The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).
 - ✓ The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).
- B. In all other cases, derecognition is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).



89. When derecognising financial assets, a federal entity shall use trade date accounting.



90. A federal entity shall derecognise a financial asset when:

- A. The contractual rights to the cash flows from the financial asset expire or are waived; or
- B. The federal entity transfers the contractual rights to receive the cash flows of the financial asset; or
- C. The federal entity transfers the asset and retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to a second party, provided that:
 - ✓ The federal entity has no obligation to pay amounts to the second party unless it collects equivalent amounts from the original asset;
 - ✓ The federal entity cannot sell or pledge the original asset other than as security to the second party for the settlement of the obligation to pay cash amounts;
 - ✓ The federal entity has an obligation to remit any cash flows it collects on behalf of the second party without material delay. In addition, the federal entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of remittance of these amounts to the second party, and interest earned on such investments shall be passed to the second party.



91. When a federal entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and benefits associated with the ownership of the financial asset, in which case:

- A. If the federal entity transfers substantially all the risks and benefits of ownership of the financial asset, it shall derecognise the financial asset and recognise assets or liabilities separately if they arise from any rights or obligations resulting from the transfer.
- B. If the federal entity retains substantially all the risks and benefits of ownership of the financial asset, it shall continue to recognise the financial asset;
- C. If the federal entity neither transfers nor retains substantially all the risks and benefits of ownership of the financial asset, it shall determine whether it has retained control of the financial asset, in which case:
 - ✓ If the federal entity has not retained control, it shall derecognise the financial asset and recognise separately any assets or liabilities arising from any rights and obligations resulting from the transfer;
 - ✓ If the federal entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.



92. A federal entity substantially retains all the risks and benefits of ownership of a financial asset if its exposure to changes in the current value of net future cash flows from the financial asset is not substantially affected by the transfer of the financial asset in question.

Transfers of Financial Assets that Qualify for Derecognition

93. If a federal entity transfers a financial asset and, as a result of the transfer, the financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability or a servicing liability, the federal entity shall recognise the new financial asset, financial liability or servicing liability at fair value.



94. When a financial asset is derecognised, a federal entity shall recognise (in the statement of financial performance) the difference between:

- A. The carrying amount (that was measured at the date of derecognition); and
- B. The sum of the consideration received (including any new asset obtained less any new liability assumed)

95. If the transferred asset is part of a larger financial asset, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between following is recognised in the statement of financial performance:

- A. The carrying amount (measured at the date of derecognition) allocated to the part derecognized; and
- B. The consideration received for the part derecognized (including any new asset obtained less any new liability assumed).

96. When a federal entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognized and the part that is derecognized, the fair value of the part that continues to be recognized needs to be measured.

Transfers of Financial Assets that Do Not Qualify for Derecognition

97. If a transfer does not result in derecognition because the federal entity has retained substantially all the risks and benefits of ownership of the transferred financial asset, the federal entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the federal entity shall recognise any income from the transferred asset and any expense incurred on the financial liability.

Continuing Involvement in Transferred Assets

98. If a federal entity neither transfers nor retains substantially all the risks and benefits of ownership of a transferred asset, but retains control of it, the federal entity shall continue to recognise the transferred asset to the extent of its continuing involvement in it. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. For example:

- A. When the federal entity's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the entity's continuing involvement shall be the lower of:
 - ✓ The amount of the asset; or

- ✓ The maximum amount of the consideration received that the federal entity could be required to repay (the guaranteed amount).
- B. When the entity's continuing involvement takes the form of a purchased option on the transferred asset, the extent of the entity's continuing involvement shall be the amount of the transferred asset that the entity may repurchase.
- C. When the entity's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the entity's continuing involvement shall be measured in the same way as that which results from non-cash settled options as set out in paragraph (B) above.



99. When a federal entity continues to recognise an asset to the extent of its continuing involvement, it shall also recognise an associated liability. Despite the other measurement requirements in this Standard, the transferred asset and the associated liability shall be measured on a basis that reflects the rights and obligations that the federal entity has retained. The liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:

- A. The amortised cost of the rights and obligations retained by the federal entity, if the transferred asset is measured at amortised cost; or
- B. The fair value of the rights and obligations retained by the federal entity if the transferred asset is measured at fair value.



100. A federal entity shall continue to recognise any revenue arising from the transferred asset to the extent of its continuing involvement and shall recognise any expense incurred on the associated liability.



101. For subsequent measurement of the asset and associated liability, a federal entity shall recognise changes in the fair value of the transferred asset and the associated liability in the statement of financial performance and shall not offset them.



102. If an entity's continuing involvement is in only a part of a financial asset, the entity shall allocate the carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the fair values of those parts on the date of the transfer. Accordingly, the federal entity shall recognise the difference between the following two items in the statement of financial performance:

- A. The carrying amount (measured at the date of derecognition) allocated to the part that is no longer recognised by the entity;
- B. The sum of the consideration received for the part derecognised by the federal entity.

103. If the transferred asset is measured at amortized cost, the option in this Standard to designate a financial liability as at fair value through surplus or deficit is not applicable to the associated liability.

All Transfers



104. If a federal entity continues to recognise a transferred asset, the asset and the associated liability shall not be offset. Similarly, the federal entity shall not offset any revenue arising from the transferred asset with any expense incurred on the associated liability

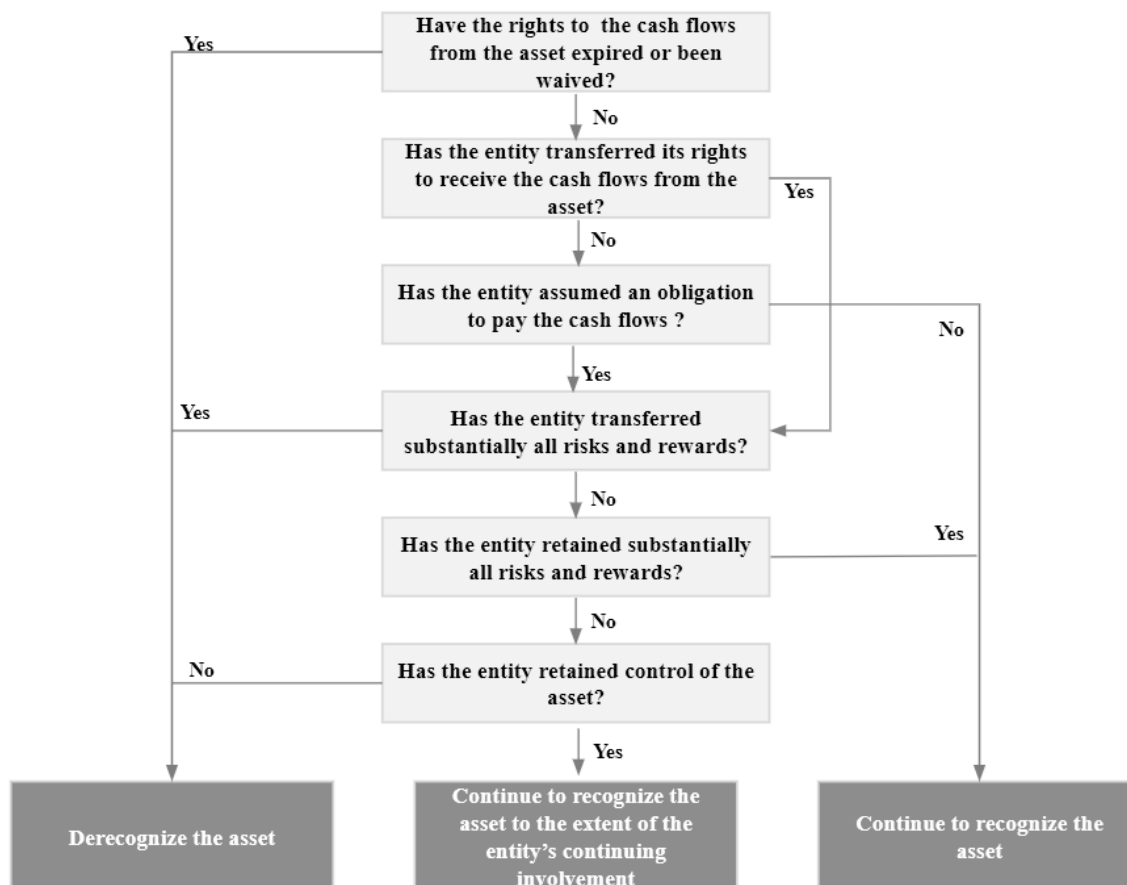


105. If a federal entity (transferor) provides non-cash collateral (such as debt instruments) to the second party (transferee), the accounting for the collateral by the federal entity shall depend on whether the transferee has the right to sell or repledge the collateral and on whether the federal entity may default. Both parties shall account for the collateral as follows:

- A. If the transferee has the right by contract or custom to sell or repledge the collateral, then the federal entity shall reclassify that financial asset in its statement of financial position separately from other assets (as a loaned asset, pledged equity instruments or repurchase receivables);
- B. If the transferee sells the collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.
- C. If the federal entity (as the transferor of the financial asset) defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral.
- D. Except as provided in paragraph (C), the federal entity (as the transferor) shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.

Illustrative Decision Tree

The purpose of the decision tree is to summarize the main requirements for derecognition of financial assets in the standard.

**Derecognition of Financial Liabilities**

106. A federal entity shall derecognise a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished if the contractual obligation specified in the contract is discharged or cancelled or if it expires.

107. When a federal entity exchanges a liability (debt instruments with specific terms) with a second party (e.g., the lender) for another liability with substantially different terms, the federal entity shall derecognise the original financial liability and recognise a new financial liability. The federal entity shall also derecognise a liability or part of it when the terms of that liability are substantially modified and shall recognise a new financial liability.



108. The difference between the carrying amount of a financial liability (or part of it) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in the statement of financial performance.

109. When a federal entity waives an obligation or another federal entity or third party assumes the obligation as part of a non-exchange transaction, FGAAS 23 "Revenue from Non-exchange Transactions" shall be applied.

110. When a federal entity repurchases a part of a financial liability, the federal entity shall allocate the carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognised and the consideration paid, including any non-cash assets transferred or liabilities assumed for the part derecognised, shall be recognised in the statement of financial performance.

Hedge Accounting

Objective and Scope of Hedge Accounting



111. The objective of hedge accounting is to represent, in the financial statements, the effect of a federal entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect surplus or deficit (or net assets/equity, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in net assets/equity).
112. A federal entity may choose to designate a hedging relationship between a hedging instrument and a hedged item. For hedging relationships that meet the qualifying criteria, a federal entity shall account for the gain or loss on the hedging instrument and the hedged item. When the hedged item is a group of items, a federal entity shall comply with the additional requirements in paragraphs 144 - 149.
113. For a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only for such a hedge), a federal entity may apply the hedge accounting requirements in Appendix 1 - (Appendix For Financial Instruments Standard 28) instead of those in this Standard. In that case, the federal entity must also apply the specific requirements for the fair value hedge accounting for a portfolio hedge of interest rate risk and designate as the hedged item a portion that is a currency amount.

Hedging Instruments

Qualifying Instruments



114. A derivative measured at fair value through surplus or deficit may be designated as a hedging instrument, except for some written options.



115. A non-derivative financial asset or a non-derivative financial liability measured at fair value through surplus or deficit may be designated as a hedging instrument unless it is a financial liability designated as at fair value through surplus or deficit for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in net assets/equity. For hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which a federal entity has elected to present changes in fair value in net assets/equity.

116. For hedge accounting purposes, only contracts with a party external to the reporting entity (i.e., external to the economic entity or individual entity that is being reported on) can be designated as hedging instruments.

Designation of Hedging Instruments



117. A qualifying instrument must be designated in its entirety as a hedging instrument. The only exceptions permitted are:

- A. Separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and not the change in its time value;
- B. Separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the value of the spot element of a forward contract and not the forward element;
- C. A proportion of the entire hedging instrument (for example 50% of the nominal amount) may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.



118. A federal entity may view in combination, and jointly designate as the hedging instrument, any combination of the following:

- A. Derivatives or a proportion of them; and
- B. Non-derivatives or a proportion of them.

119. However, a derivative instrument that combines a written option and a purchased option does not qualify as a hedging instrument if it is, in effect, a net written option at the date of designation. Similarly, two or more instruments may be jointly designated as the hedging instrument only if, in combination, they are not, in effect, a net written option at the date of designation.

Hedging Items

Qualifying Items



120. A hedged item can be a recognized asset or liability, an unrecognized firm commitment, a forecast transaction or a net investment in a foreign operation. The hedged item can be:

- A. A single item; or
- B. A group of items.

A hedged item can also be a component of such an item or group of items.

121. The hedged item must be reliably measurable.

122. If a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable.

123. An aggregated exposure that is a combination of an

- A. Exposure that could qualify as a hedged item; and
- B. A derivative may be designated as a hedged item if the aggregated exposure is highly probable.



124. For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions with a party external to the reporting federal entity can be designated as hedged items. Hedge accounting can be applied to transactions between entities in the same economic entity only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the economic entity, except for:

- A. The consolidated financial statements of an investment entity, where transactions between an investment entity and its controlled entities measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements; or
- B. The consolidated financial statements of a controlling entity of an investment entity, as defined in FGAAS 37 "Investments and preparation of Financial Statements" that is not itself an investment entity, where transactions between a controlled investment entity and the investments of a controlled investment entity measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements.



125. However, as an exception to the above paragraph 124, the foreign currency risk of a monetary item within an economic entity (for example, a payable/ receivable between two controlled entities) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with FGAAS "The Effects of Changes in Foreign Exchange Rates". Foreign exchange rate gains and losses on monetary items within an economic entity are not fully eliminated on consolidation when the monetary item is transacted between two entities within the economic entity that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast transaction within the economic entity may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency

other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated surplus or deficit.

Designation of Hedged Items

126. A federal entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship. An entire item comprises all changes in the cash flows or fair value of an item. A component comprises less than the entire fair value change or cash flow variability of an item. In that case, a federal entity may designate only the following types of components (including combinations) as hedged items:

- A. Only changes in the cash flows or fair value of an item attributable to a specific risk or risks (risk component), provided that, based on an assessment within the context of the particular market structure, the risk component is separately identifiable and reliably measurable. Risk components include a designation of only changes in the cash flows or the fair value of a hedged item above or below a specified price or other variable (a one-sided risk).
- B. One or more selected contractual cash flows.
- C. Components of a nominal amount, i.e., a specified part of the amount of an item.

Qualifying Criteria for Hedge Accounting

127. A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:

- A. The hedging relationship consists only of eligible hedging instruments and eligible hedged items.
- B. At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the federal entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the federal entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).
- C. The hedging relationship meets all of the following hedge effectiveness requirements:
 - ✓ There is an economic relationship between the hedged item and the hedging instrument;
 - ✓ The effect of credit risk does not dominate the value changes that result from that economic relationship; and
 - ✓ The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the federal entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognized or not)

that could result in an accounting outcome that would be inconsistent with the purpose of hedge.

Accounting for Qualifying Hedge Transactions



128. A federal entity applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 127.



129. There are three types of hedging relationships:

- A. Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or a component of any such item, that is attributable to a particular risk and could affect the statement of financial performance of the federal entity.
- B. Cash flow hedge: a hedge of the exposure to variability in cash flows that is:
 - ✓ Attributable to particular risks associated with a recognized asset or liability (such as all or some future interest payments on variable-rate debt) or a highly probable forecast transaction; and
 - ✓ Could affect the statement of financial performance.
- C. Hedge of a net investment in a foreign operation as defined in FGAAS 4 "The Effects of Changes in Foreign Exchange Rates".



130. If the hedged item is an equity instrument for which a federal entity has elected to present changes in fair value in net assets/equity, the hedged exposure must be one that could affect net assets/equity. In that case, and only in that case, the recognized hedge ineffectiveness is presented in net assets/equity.

131. A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or a cash flow hedge.

132. If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, a federal entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (this is referred to in this Standard as 'rebalancing').



133. A federal entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.



134. The replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the federal entity's documented risk management objective. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:

- A. As a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central

counterparty (sometimes called a 'clearing organization' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organization or a client of a clearing member of a clearing organization, that are acting as a counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties the requirement in this subparagraph is met only if each of those parties effects clearing with the same central counterparty.

- B. Other changes, if any, to the hedging instrument are limited to those that are necessary to affect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.

Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).



135. A federal entity shall apply the requirements differently as follows:

- A. The related requirements when it discontinues hedge accounting for a fair value hedge for which the hedged item is (or is a component of) a financial instrument measured at amortized cost; and
- B. The related requirements when it discontinues hedge accounting for cash flow hedges.

Fair Value Hedges



136. As long as a fair value hedge meets the qualifying criteria, the hedging relationship shall be accounted for as follows:

- A. The gain or loss on the hedging instrument shall be recognized in surplus or deficit (or net assets/equity) if the hedging instrument hedges an equity instrument for which a federal entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 80).
- B. The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognized in surplus or deficit. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through net assets/equity in accordance with paragraph 15, the hedging gain or loss on the hedged item shall be recognized in surplus or deficit. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 80, those amounts shall remain in net assets/equity. When a hedged item is an unrecognized firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognized as an asset or a liability with a corresponding gain or loss recognized in surplus or deficit.



137. When a hedged item in a fair value hedge is a firm commitment (or a component thereof) to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability that results from the federal entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognized in the statement of financial position.



138. Any adjustment arising from paragraph 136(B) shall be amortized to surplus or deficit if the hedged item is a financial instrument (or a component thereof) measured at amortized cost. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses. The amortization is based on a recalculated effective interest rate at the date that amortization begins. In the case of a financial asset (or a component thereof) that is a hedged item and that is measured at fair value through net assets/equity in accordance with paragraph 15, amortization applies in the same manner but to the amount that represents the cumulative gain or loss previously recognized in accordance with paragraph 136(B) instead of by adjusting the carrying amount.

Cash Flow Hedges



139. As long as a cash flow hedge meets the qualifying criteria, the hedging relationship shall be accounted for as follows:

- A. The separate component of net assets/equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
 - ✓ The cumulative gain or loss on the hedging instrument from inception of the hedge; and
 - ✓ The cumulative change in fair value (present value) of the hedged item (i.e., the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.
- B. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e., the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (A)) shall be recognized in net assets/equity.
- C. Any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (A)) is hedge ineffectiveness that shall be recognized in surplus or deficit.
- D. The amount that has been accumulated in the cash flow hedge reserve in accordance with (A) shall be accounted for as follows:
 - ✓ If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the federal entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence it does not affect net assets/equity.

- ✓ For cash flow hedges other than those covered by item (1), that amount shall be reclassified from the cash flow hedge reserve to surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect surplus or deficit (for example, in the periods that interest revenue or interest expense is recognized or when a forecast sale occurs).
- ✓ However, if that amount is a loss and a federal entity expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into surplus or deficit as a reclassification adjustment.

140. When a federal entity discontinues hedge accounting for a cash flow hedge it shall account for the amount that has been accumulated in the cash flow hedge reserve as follows:



- A. If the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur.
- B. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to surplus or deficit as a reclassification adjustment. A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedges of a Net Investment in a Foreign Operation



141. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see FGAAS 4 "The Effects of Changes in Foreign Exchange Rates"), shall be accounted for similarly to cash flow hedges:

- A. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in net assets/equity (see paragraph 139) through statement of change in net assets/equity (see FGAAS 1 "Presentation of Financial Statements"); and
- B. The ineffective portion shall be recognized in statement of financial performance.

The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in the foreign currency translation reserve shall be reclassified from net assets/equity to surplus or deficit as a reclassification adjustment in accordance with FGAAS 4 "The Effects of Changes in Foreign Exchange Rates".

Accounting for the Time Value of Options



142. When a federal entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option, it shall account for the time value of the option as follows:

- A. A federal entity shall distinguish the time value of options by the type of hedged item that the option hedges:
 - ✓ A transaction related hedged item; or
 - ✓ A time-period related hedged item.

- B. The change in fair value of the time value of an option that hedges a transaction related hedged item shall be recognized in net assets/equity to the extent that it relates to the hedged item and shall be accumulated in a separate component of net assets/equity. The cumulative change in fair value arising from the time value of the option that has been accumulated in a separate component of net assets/equity (the 'amount') shall be accounted for as follows:
- ✓ If the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the federal entity shall remove the amount from the separate component of net assets/equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence does not affect net assets/equity.
 - ✓ For hedging relationships other than those covered by item (1), the amount shall be reclassified from the separate component of net assets/equity to surplus or deficit as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect surplus or deficit (for example, when a forecast sale occurs).
 - ✓ However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into surplus or deficit as a reclassification adjustment.
- C. The change in fair value of the time value of an option that hedges a time-period related hedged item shall be recognized in net assets/equity to the extent that it relates to the hedged item and shall be accumulated in a separate component of net assets/equity. The time value at the date of designation of the option as a hedging instrument, to the extent that it relates to the hedged item, shall be amortized on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect surplus or deficit (or net assets/equity, if the hedged item is an equity instrument for which a federal entity has elected to present changes in fair value in net assets/equity). Hence, in each reporting period, the amortization amount shall be reclassified from the separate component of net assets/equity to surplus or deficit as a reclassification adjustment. However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (i.e., including cumulative amortization) that has been accumulated in the separate component of net assets/equity shall be immediately reclassified into surplus or deficit as a reclassification adjustment.

Accounting for the Forward Element of Forward Contracts and Foreign Currency Basis Spreads of Financial Instruments



143. When a federal entity separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract, or when a federal entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial

instrument as the hedging instrument, the federal entity may apply paragraph 142 to the forward element of the forward contract or to the foreign currency basis spread in the same manner as it is applied to the time value of an option.

Hedges of a Group of Items

Eligibility of a Group of Items as the Hedged Item



144. A group of items is an eligible hedged item only if:

- A. It consists of items that are, individually, eligible hedged items;
- B. The items in the group are managed together on a group basis for risk management purposes; and
- C. In the case of a cash flow hedge of a group of items whose variabilities in cash flows are not expected to be approximately proportional to the overall variability in cash flows of the group so that offsetting risk positions arise:
 - ✓ It is a hedge of foreign currency risk; and
 - ✓ The designation of that net position specifies the reporting period in which the forecast transactions are expected to affect surplus or deficit, as well as their nature and volume.

Designation of a Component of a Nominal Amount



145. A component that is a proportion of an eligible group of items is an eligible hedged item provided that designation is consistent with the federal entity's risk management objective.



146. A layer component of an overall group of items (for example, a bottom layer) is eligible for hedge accounting only if:

- A. It is separately identifiable and reliably measurable;
- B. The risk management objective is to hedge a layer component;
- C. The items in the overall group from which the layer is identified are exposed to the same hedged risk;
- D. For a hedge of existing items (for example, an unrecognized firm commitment or a recognized asset) a federal entity can identify and track the overall group of items from which the hedged layer is defined (so that the federal entity is able to comply with the requirements for the accounting for qualifying hedging relationships); and
- E. Any items in the group that contain prepayment options meet the requirements for components of a nominal amount.

Presentation



147. For a hedge of a group of items with offsetting risk positions (i.e., in a hedge of a net position) whose hedged risk affects different line items in the statement of financial performance and statement of changes in net assets/equity, any hedging gains or losses in that statement shall be presented in a separate line from those affected by the hedged items. Hence, in that statement the amount in the line item that relates to the hedged item itself (for example, revenue or expenses) remains unaffected.



148. For assets and liabilities that are hedged together as a group in a fair value hedge, the gain or loss in the statement of financial position on the individual assets and liabilities shall be recognized as an adjustment of the carrying amount of the respective individual items comprising the group.

Nil Net Positions



149. When the hedged item is a group that is a nil net position (i.e., the hedged items among themselves fully offset the risk that is managed on a group basis), a federal entity is permitted to designate it in a hedging relationship that does not include a hedging instrument, provided that:

- A. The hedge is part of a rolling net risk hedging strategy, whereby the federal entity routinely hedges new positions of the same type as time moves on (for example, when transactions move into the time horizon for which the federal entity hedges);
- B. The hedged net position changes in size over the life of the rolling net risk hedging strategy and the federal entity uses eligible hedging instruments to hedge the net risk (i.e., when the net position is not nil);
- C. Hedge accounting is normally applied to such net positions when the net position is not nil and it is hedged with eligible hedging instruments; and
- D. Not applying hedge accounting to the nil net position would give rise to inconsistent accounting outcomes, because the accounting would not recognize the offsetting risk positions that would otherwise be recognized in a hedge of a net position.

Option to Designate a Credit Exposure as Measured at Fair Value through Surplus or Deficit



Eligibility of Credit Exposures for Designation at Fair Value through Surplus or Deficit

150. If a federal entity uses a credit derivative that is measured at fair value through surplus or deficit to manage the credit risk of all, or a part of, a financial instrument (credit exposure) it may designate that financial instrument to the extent that it is so managed (i.e., all or a proportion of it) as measured at fair value through surplus or deficit if:

- A. The name of the credit exposure (for example, the borrower, or the holder of a loan commitment) matches the reference federal entity of the credit derivative ('name matching'); and
- B. The seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative.

A federal entity may make this designation irrespective of whether the financial instrument that is managed for credit risk is within the scope of this Standard (for example, a federal entity may designate loan commitments that are outside the scope of this Standard). The federal entity may designate that financial instrument at, or subsequent to, initial recognition, or while it is unrecognized. The federal entity shall document the designation concurrently.

Accounting for Credit Exposures Designated at Fair Value through Surplus or Deficit



151. If a financial instrument is designated in accordance with paragraph 150 as measured at fair value through surplus or deficit after its initial recognition, or was previously not recognized, the difference at the time of designation between the carrying amount, if any, and the fair value shall immediately be recognized in surplus or deficit. For financial assets measured at fair value through net assets/ equity in accordance with paragraph 15, the cumulative gain or loss previously recognized in net assets/equity shall immediately be reclassified from net assets/ equity to surplus or deficit as a reclassification adjustment (see FGAAS 1 "Presentation of Financial Statements").

152. A federal entity shall discontinue measuring the financial instrument that gave rise to the credit risk, or a proportion of that financial instrument, at fair value through surplus or deficit if:



- A. The qualifying criteria in the paragraph 150 above are no longer met, for example:
 - ✓ The credit derivative or the related financial instrument that gives rise to the credit risk expires or is sold, terminated or settled; or
 - ✓ The credit risk of the financial instrument is no longer managed using credit derivatives. For example, this could occur because of improvements in the credit quality of the borrower or the loan commitment holder or changes to capital requirements imposed on a federal entity;
- B. The financial instrument that gives rise to the credit risk is not otherwise required to be measured at fair value through surplus or deficit (i.e., the federal entity's management model has not changed in the meantime so that a reclassification was required).



153. When a federal entity discontinues measuring the financial instrument that gives rise to the credit risk, or a proportion of that financial instrument, at fair value through surplus or deficit, that financial instrument's fair value at the date of discontinuation becomes its new carrying amount. Subsequently, the same measurement that was used before designating the financial instrument at fair value through surplus or deficit shall be applied (including amortization that results from the new carrying amount). For example, a financial asset that had originally been classified as measured at amortized cost would revert to that measurement and its effective interest rate would be recalculated based on its new gross carrying amount on the date of discontinuing measurement at fair value through surplus or deficit.



Standard 30 - Financial Instruments: Disclosures

Standard 30 - Financial Instruments: Disclosures

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 30 (IPSAS 30). It is worth mentioning that certain text of standard 30 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to require federal entities to provide disclosures in their financial statements that enable users to evaluate:
 - A. The significance of financial instruments for the federal entity's financial position and performance; and
 - B. The nature and extent of risks arising from financial instruments to which the federal entity is exposed during the period and at the end of the reporting period, and how the federal entity manages those risks.
2. The principles in this Standard complement the principles for recognizing, measuring, and presenting financial assets and financial liabilities in FGAAS 28 "Financial Instruments: Presentation" and FGAAS 41 "Financial Instruments: Recognition and Measurement".

Scope



3. This Standard shall be applied by federal entities required to apply this Manual.
4. This Standard shall be applied to all types of financial instruments in a federal entity except:
 - A. Those interests in controlled federal entities, associates and joint ventures that are accounted for in accordance with:
 - ✓ FGAAS 35 "Consolidated Financial Statements";
 - ✓ FGAAS 36 "Investments in Associates and Joint Ventures"; and
 - ✓ FGAAS 37 "Joint Arrangements"

Federal entities shall also apply this Standard to derivatives linked to interests unless the derivative meets the definition of an equity instrument (residual interest) as illustrated in this standard.
 - B. Employers' rights and obligations arising from employee benefit plans to which FGAAS 39 "Employee Benefits" applies;
 - C. Rights and obligations arising from contracts covered by other policies, unless the contract in question includes embedded derivatives of financial guarantees, in which case this standard provides the accounting treatment which a government entity shall adopt for such embedded derivatives or guarantees;
 - D. Instruments that are required to be classified as equity instruments in accordance with FGAAS 28 "Financial Instruments: Presentation".
5. This Standard applies to recognized and unrecognized financial instruments. Recognized financial instruments include financial assets and financial liabilities that are within the scope of FGAAS 41 "Financial Instruments: Recognition and Measurement". Unrecognized financial instruments include some financial instruments that, although outside the scope of FGAAS 41 "Financial Instruments: Recognition and Measurement", are within the scope of this Standard (such as some loan commitments).

6. This Standard applies to contracts to buy or sell a non-financial item that are within the scope of FGAAS 41 "Financial Instruments: Recognition and Measurement".
7. The credit risk disclosure requirements apply to those rights for receivables that result from exchange transactions that are within the scope of FGAAS 9 "Revenue from Exchange Transactions" and non-exchange transactions within the scope of FGAAS 23 "Revenue from Non-exchange Transactions" which give rise to financial instruments for the purpose of recognizing impairment gains or losses. Any reference to financial assets or financial instruments in these paragraphs shall include those rights unless otherwise specified.

Classes of Financial Instruments and Level of Disclosure



8. A federal entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and the characteristics of those financial instruments. A federal entity shall provide sufficient information to permit reconciliation to the main items presented in the statement of financial position.

Significance of Financial Instruments for Financial Position and Financial Performance



9. A federal entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for the financial position and performance of the federal entity.

Statement of Financial Position

Categories of Financial Assets and Financial Liabilities



10. The carrying amounts of each of the following categories, shall be disclosed either in the statement of financial position or in the notes:
- A. Financial assets measured at fair value through surplus or deficit, showing separately:
 - ✓ Those designated as such upon initial recognition or subsequently in accordance with paragraph 150 of FGAAS 41 “Financial Instruments: Recognition and Measurement”; and
 - ✓ Those mandatorily measured at fair value through surplus or deficit in accordance with FGAAS 41 “Financial Instruments: Recognition and Measurement”;
 - B. Financial liabilities at fair value through surplus or deficit, showing separately:
 - ✓ Those designated as such upon initial recognition or subsequently in accordance with paragraph 150 of FGAAS 41 “Financial Instruments: Recognition and Measurement”, and
 - ✓ Those that meet the definition of held for trading in FGAAS 41 “Financial Instruments: Recognition and Measurement”;
 - C. Financial assets measured at amortized cost;
 - D. Financial liabilities measured at amortized cost; and
 - E. Financial assets measured at fair value through net assets/equity, showing separately:
 - ✓ Financial assets that are measured at fair value through net assets/equity in accordance with FGAAS 41 “Financial Instruments: Recognition and Measurement”; and
 - ✓ Investments in equity instruments designated as such upon initial recognition in accordance with FGAAS 41 “Financial Instruments: Recognition and Measurement”.

Financial Assets or Financial Liabilities at Fair Value through Surplus or Deficit

11. If the federal entity has designated as measured at fair value through surplus or deficit a financial asset or group of financial assets that would otherwise be measured at fair value through net assets/equity or amortized cost, it shall disclose:
- A. The maximum exposure to credit risk of the financial asset (or group of financial assets) at the end of the reporting period.
 - B. The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.
 - C. The amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:
 - ✓ As the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or
 - ✓ Using an alternative method, the federal entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.
 - D. The amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.



12. If the federal entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 20 of FGAAS 41 "Financial Instruments: Recognition and Measurement" and is required to present the effects of changes in that liability's credit risk in net assets/equity, it shall disclose:
- A. The amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability;
 - B. The difference between the financial liability's carrying amount and the amount the federal entity would be contractually required to pay at maturity to the holder of the obligation.
 - C. Any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers.
 - D. If a liability is derecognized during the period, the amount (if any) presented in net assets/equity that was realized at derecognition.
13. If a federal entity has designated a financial liability as at fair value through surplus or deficit in accordance with FGAAS 41 "Financial Instruments: Recognition and Measurement" and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in surplus or deficit, it shall disclose:
- A. The amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability; and

- B. The difference between the financial liability's carrying amount and the amount the federal entity would be contractually required to pay at maturity to the holder of the obligation.



14. The federal entity shall also disclose:

- A. A detailed description of the methods used to comply with the requirements in paragraphs 87(C), 88(A) and 81(A) of FGAAS 41 "Financial Instruments: Recognition and Measurement", including an explanation of why the method is appropriate.
- B. If the federal entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in paragraph 87(C), 88(A) and 81(A) of FGAAS 41 "Financial Instruments: Recognition and Measurement", does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.
- C. A detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in net assets/equity would create or enlarge an accounting mismatch in surplus or deficit (see paragraphs 81 and 82 of FGAAS 41 "Financial Instruments: Recognition and Measurement"). If a federal entity is required to present the effects of changes in a liability's credit risk in surplus or deficit, the disclosure must include a detailed description of the economic relationship described in FGAAS 41 "Financial Instruments: Recognition and Measurement".

Investments in Equity Instruments Designated at Fair Value through Net Assets/Equity



15. If a federal entity has designated investments in equity instruments to be measured at fair value through net assets/equity, as permitted by paragraph 80 of FGAAS 41 "Financial Instruments: Recognition and Measurement", it shall disclose:

- A. Which investments in equity instruments have been designated to be measured at fair value through net assets/equity.
- B. The reasons for using this presentation alternative.
- C. The fair value of each such investment at the end of the reporting period.
- D. Dividends recognized during the period, showing separately those related to investments derecognized during the reporting period and those related to investments held at the end of the reporting period.
- E. Any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers.

16. If a federal entity derecognized investments in equity instruments measured at fair value through net assets/equity during the reporting period, it shall disclose:

- A. The reasons for disposing of the investments.
- B. The fair value of the investments at the date of derecognition.
- C. The cumulative gain or loss on disposal.

Reclassification



17. A federal entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 66 of FGAAS 41 "Financial Instruments: Recognition and Measurement". For each such event, a federal entity shall disclose:
 - A. The date of reclassification.
 - B. A detailed explanation of the change in management model and a qualitative description of its effect on the entity's financial statements.
 - C. The amount reclassified into and out of each category.
18. For each reporting period following reclassification until derecognition, a federal entity shall disclose for assets reclassified out of the fair value through surplus or deficit category so that they are measured at amortized cost or fair value through net assets/equity in accordance with paragraph 66 of FGAAS 41 "Financial Instruments: Recognition and Measurement":
 - A. The effective interest rate determined on the date of reclassification; and
 - B. The interest revenue recognized.
19. If, since its last reporting date, a federal entity has reclassified financial assets out of the fair value through net assets/equity category so that they are measured at amortized cost or out of the fair value through surplus or deficit category so that they are measured at amortized cost or fair value through net assets/ equity it shall disclose:
 - A. The fair value of the financial assets at the end of the reporting period; and
 - B. The fair value gain or loss that would have been recognized in surplus or deficit or net assets/equity during the reporting period if the financial assets had not been reclassified.

Offsetting Financial Assets and Financial Liabilities



20. The disclosures in the paragraphs 20 - 23 supplement the other disclosure requirements of this Standard and are required for all recognized financial instruments that are set off in accordance with paragraph 21 of FGAAS 28 "Financial Instruments: Presentation". These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with FGAAS 28 "Financial Instruments: Presentation".
21. A federal entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the federal entity's financial position. This includes the effect or potential effect of rights of set- off associated



with the entity's recognized financial assets and recognized financial liabilities that are within the scope of paragraph 20.

22. To meet the objective in paragraph 21, a federal entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognized financial assets and recognized financial liabilities that are within the scope of paragraph 20:
- A. The gross amounts of those recognized financial assets and recognized financial liabilities;
 - B. The amounts that are set off in accordance with the criteria in paragraph 93 of FGAAS 28 "Financial Instruments: Presentation" when determining the net amounts presented in the statement of financial position;
 - C. The net amounts presented in the statement of financial position;
 - D. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 22, including:
 - ✓ Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in FGAAS 28 "Financial Instruments: Presentation"; and
 - ✓ Amounts related to financial collateral (including cash collateral); and
 - E. The net amount after deducting the amounts in (D) from the amounts in (C) above.

The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

23. A federal entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 22, including the nature of those rights.
24. If the information required by paragraphs 21-23 is disclosed in more than one note to the financial statements, a federal entity shall cross-refer between those notes.

Collateral



25. A federal entity shall disclose:
- A. The carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified; and
 - B. The terms and conditions relating to its pledge.



26. When a federal entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:
- A. The fair value of the collateral held;

- B. The fair value of any such collateral sold or repledged, and whether the federal entity has an obligation to return it; and
- C. The terms and conditions associated with its use of the collateral.

Allowance Account for Credit Losses



27. The carrying amount of financial assets measured at fair value through net assets/equity in accordance with paragraph 15 of FGAAS 41 "Financial Instruments: Recognition and Measurement" is not reduced by a loss allowance and a federal entity shall not present the loss allowance separately in the statement of financial position as a reduction of the carrying amount of the financial asset. However, a federal entity shall disclose the loss allowance in the notes to the financial statements.

Defaults and Breaches



28. For loans payable recognized at the end of the reporting period, a federal entity shall disclose:
- A. Details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
 - B. The carrying amount of the loans payable in default at the end of the reporting period; and
 - C. Whether the default was remedied, or the terms of the loans payable were renegotiated before the financial statements were authorized for issue.
29. If, during the period, there were breaches of loan agreement terms other than those described in paragraph 111, a federal entity shall disclose the same information as required by that paragraph if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

Statement of Financial Performance

Items of Revenue, Expense, Gains, or Losses



30. A federal entity shall disclose the following items of revenue, expense, gains, or losses either in the statement of financial performance or in the notes:
- A. Net gains or net losses on:
 - ✓ Financial assets or financial liabilities measured at fair value through surplus or deficit, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 150 of FGAAS 41 "Financial Instruments: Recognition and Measurement", and those on financial assets or financial liabilities that are mandatorily measured at fair value through surplus or deficit in accordance with FGAAS 41 "Financial Instruments: Recognition and Measurement" (e.g., financial liabilities that meet the definition of held for trading in FGAAS 41

“Financial Instruments: Recognition and Measurement”). For financial liabilities designated as at fair value through surplus or deficit, a federal entity shall show separately the amount of gain or loss recognized in net assets/equity and the amount recognized in surplus or deficit;

- ✓ Financial liabilities measured at amortized cost;
- ✓ Financial assets measured at amortized cost;
- ✓ Investments in equity instruments designated at fair value through net assets/equity; and
- ✓ Financial assets measured at fair value through net assets/ equity, showing separately the amount of gain or loss recognized in net assets/ equity during the period and the amount reclassified upon derecognition from accumulated net assets/equity to surplus or deficit for the period.

B. Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are measured at amortized cost or that are measured at fair value through net assets/equity in accordance with FGAAS 41 “Financial Instruments: Recognition and Measurement” (showing these amounts separately); or financial liabilities that are not measured at fair value through surplus or deficit;

C. Fee revenue and expense (other than amounts included in determining the effective interest rate) arising from:

- ✓ Financial assets or financial liabilities that are not at fair value through surplus or deficit; and
- ✓ Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;

31. A federal entity shall disclose an analysis of the gain or loss recognized in the statement of financial performance arising from the derecognition of financial assets measured at amortized cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognizing those financial assets.

Other Disclosures

Accounting Policies



32. In accordance with FGAAS 1 “Presentation of Financial Statements”, a federal entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Hedge Accounting



33. A federal entity shall apply the disclosure requirements in the below following paragraphs for those risk exposures that a federal entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

- A. A federal entity's risk management strategy and how it is applied to manage risk;
- B. How the federal entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and
- C. The effect that hedge accounting has had on the entity's statement of financial position, statement of financial performance and statement of changes in net assets/equity.



34. A federal entity shall present the required disclosures in a single note or separate section in its financial statements. However, the entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.
35. When the federal entity is required to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. A federal entity shall determine risk categories consistently for all hedge accounting disclosures.
36. To meet the objectives in paragraph 34, a federal entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this Standard.

The Risk Management Strategy

37. A federal entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):
- A. How each risk arises.
 - B. How the federal entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.
 - C. The extent of risk exposures that the federal entity manages.



38. To meet the requirements in paragraph 37, the information should include (but is not limited to) a description of:
- A. The hedging instruments that are used (and how they are used) to hedge risk exposures;
 - B. How the federal entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and
 - C. How the federal entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.
39. When a federal entity designates a specific risk component as a hedged item (see paragraph 128 of FGAAS 41 “Financial Instruments: Recognition and Measurement”), it shall provide, in addition to the disclosures required by in the two paragraphs above, qualitative or quantitative information about:
- A. How the federal entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and
 - B. How the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80% of the changes in fair value of the item as a whole).

The Amount, Timing and Uncertainty of Future Cash Flows

40. Unless exempted by paragraph 43, a federal entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the federal entity.
41. To meet the requirement in paragraph 40, a federal entity shall provide a breakdown that discloses:
- A. A profile of the timing of the nominal amount of the hedging instrument; and
 - B. If applicable, the average price or rate (for example strike or forward prices etc.) of the hedging instrument.



42. In situations in which a federal entity frequently resets (i.e., discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (i.e., the federal entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long), the federal entity:
- A. Is exempt from providing the disclosures required by paragraphs 41 and 42.
 - B. Shall disclose:
 - ✓ Information about what the ultimate risk management strategy is in relation to those hedging relationships;
 - ✓ A description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and
 - ✓ An indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.
43. A federal entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.
44. If other sources of hedge ineffectiveness emerge in a hedging relationship, a federal entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness. For cash flow hedges, a federal entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The Effects of Hedge Accounting on Financial Position and Performance



45. A federal entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):
- A. The carrying amount of the hedging instruments (financial assets separately from financial liabilities);
 - B. The line item in the statement of financial position that includes the hedging instrument;
 - C. The change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness for the period; and
 - D. The nominal amounts (including quantities such as tons or cubic meters) of the hedging instruments.
46. A federal entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:
- A. For fair value hedges:
 - ✓ The carrying amount of the hedged item recognized in the statement of financial position (presenting assets separately from liabilities);



- ✓ The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognized in the statement of financial position (presenting assets separately from liabilities);
 - ✓ The line item in the statement of financial position that includes the hedged item;
 - ✓ The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period; and
 - ✓ The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.
- B. For cash flow hedges and hedges of a net investment in a foreign operation:
- ✓ The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period (i.e., for cash flow hedges the change in value used to determine the recognized hedge ineffectiveness in accordance with paragraph 139 of FGAAS 41 “Financial Instruments: Recognition and Measurement”);
 - ✓ The balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraph 139 and 141 of FGAAS 41 “Financial Instruments: Recognition and Measurement”; and
 - ✓ The balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.



47. A federal entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

- A. For fair value hedges:
- ✓ Hedge ineffectiveness—i.e., the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognized in surplus or deficit (or net assets/ equity for hedges of an equity instrument for which a federal entity has elected to present changes in fair value in net assets/equity in accordance with paragraph 80 of FGAAS 41 “Financial Instruments: Recognition and Measurement”); and
 - ✓ The line item in the statement of financial performance that includes the recognized hedge ineffectiveness.
- B. For cash flow hedges and hedges of a net investment in a foreign operation:
- ✓ Hedging gains or losses of the reporting period that were recognized in net assets/equity;
 - ✓ Hedge ineffectiveness recognized in surplus or deficit;
 - ✓ The line item in the statement of financial performance that includes the recognized hedge ineffectiveness;
 - ✓ The amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into surplus or deficit as a reclassification

adjustment (see FGAAS 1 "Presentation of Financial Statements")
(differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected surplus or deficit);

- ✓ The line item in the statement of financial performance that includes the reclassification adjustment (see FGAAS 1 "Presentation of Financial Statements"); and
- ✓ For hedges of net positions, the hedging gains or losses recognized in a separate line item in the statement of financial performance (see paragraph 147 of FGAAS 41 "Financial Instruments: Recognition and Measurement").

48. When the volume of hedging relationships to which the exemption in paragraph 3 in the previous section above, applies is unrepresentative of normal volumes during the period (i.e., the volume at the reporting date does not reflect the volumes during the period) a federal entity shall disclose that fact and the reason it believes the volumes are unrepresentative.



49. A federal entity shall provide a reconciliation of each component of net assets/ equity and an analysis of net assets/equity in accordance with FGAAS 1 "Presentation of Financial Statements" that, taken together:

- A. Differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 47 and 49 as well as the amounts accounted for in accordance with paragraph 139 of FGAAS 41 "Financial Instruments: Recognition and Measurement";
- B. Differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when a federal entity accounts for the time value of an option in accordance with paragraph 142 of FGAAS 41 "Financial Instruments: Recognition and Measurement"; and
- C. Differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when a federal entity accounts for those amounts in accordance with paragraph 143 of FGAAS 41 "Financial Instruments: Recognition and Measurement".

50. A federal entity shall disclose the information required in paragraph 50 separately by risk category. This disaggregation by risk may be provided in the notes to the financial statements.

Option to Designate a Credit Exposure as Measured at Fair Value Through Surplus or Deficit



51. If a federal entity designated a financial instrument, or a proportion of it, as measured at fair value through surplus or deficit because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:
- A. For credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through surplus or deficit in accordance with paragraph 150 of FGAAS 41 "Financial Instruments: Recognition and Measurement", a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;
 - B. The gain or loss recognized in surplus or deficit on designation of a financial instrument, or a proportion of it, as measured at fair value through surplus or deficit in accordance with paragraph 150 of FGAAS 41 "Financial Instruments: Recognition and Measurement"; and
 - C. On discontinuation of measuring a financial instrument, or a proportion of it, at fair value through surplus or deficit, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 153 of FGAAS 41 "Financial Instruments: Recognition and Measurement" and the related nominal or principal amount (except for providing comparative information in accordance with FGAAS 1 "Presentation of Financial Statements", an entity does not need to continue this disclosure in subsequent periods).

Fair Value



52. Except as set out in paragraph 91 for each class of financial assets and financial liabilities, a federal entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.
53. In disclosing fair values, a federal entity shall group financial assets and financial liabilities into classes but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.



54. A federal entity shall disclose for each class of financial instruments the following:
- A. The methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, a federal entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.
 - B. If there has been a change in valuation technique, the federal entity shall disclose that change and the reasons for making it.



55. A federal entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:
- A. Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

- B. Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices); and
 - C. Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).
56. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.
57. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.
58. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.



Example 30.1 - Fair Value Hierarchy

The following example illustrates the disclosure relating to fair value hierarchy in tabular format in the notes to financial statement:

Measuring fair value at the end of the reporting period using the following (in AED):

Description	Amount	Level 1	Level 2	Level 3
Financial assets at fair value through surplus or deficit:				
Traded securities	100,000	40,000	55,000	5,000
Traded derivatives	39,000	17,000	20,000	2,000
Available-for-sale financial assets:				
Equity investments	75,000	30,000	40,000	5,000
Total	214,000	87,000	115,000	12,000



59. For fair value measurements recognized in the statement of financial position a government entity shall disclose for each class of financial instruments:
- A. The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined above.
 - B. Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.
 - C. For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

- ✓ Total gains or losses for the period recognized in statement of financial performance, and a description of where they are presented in the statement of financial performance;
- ✓ Total gains or losses recognized in net assets/equity;
- ✓ Purchases, sales, issues, and settlements where each type of movement disclosed separately; and
- ✓ Transfers into or out of Level 3 (e.g., transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

- D. The amount of total gains or losses for the period in 59 (C) above included in statement of financial performance that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of financial performance.
- E. For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The federal entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognized in net assets/equity, total equity.

60. A federal entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.



61. If the market for a financial instrument is not active, a federal entity establishes its fair value using a valuation technique. Nevertheless, the best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of the instrument is confirmed by comparison with other current market transactions for the same financial instrument. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, a federal entity shall disclose, by class of financial instrument:
- A. Its accounting policy for recognizing that difference in surplus or deficit to reflect a change in factors (including time) that market participants would consider in setting a price; and
 - B. The aggregate difference yet to be recognized in surplus or deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

62. Disclosures of fair value are not required:

- A. When the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables; and
- B. For a contract containing a discretionary participation feature if the fair value of that feature cannot be measured reliably.



63. In the case described in paragraph 63, a federal entity shall disclose information to help users of the financial statements make their own judgments about the extent of possible differences between the carrying amount of those contracts and their fair value, including:

- A. The fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- B. A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
- C. Information about the market for the instruments;
- D. Information about whether and how the entity intends to dispose of the financial instruments; and
- E. If financial instruments whose fair value previously could not be reliably measured are derecognized, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognized.

Concessionary Loans

64. Concessionary loans are granted by entities on below market terms.

**Example 30.2 - Concessionary Loans**

Examples of concessionary loans granted by federal entities include:

- ✓ Loans granted to small farms
- ✓ Student loans granted to students who are qualified for tertiary education or scholarships
- ✓ Housing loans granted to low-income individuals



65. A federal entity shall make a distinction between granting or receiving concessionary loans from assigning debt ownership. This distinction is very important because it affects the consideration of declining market conditions at the initial recognition or measurement of a loan rather than on subsequent measurement or derecognition.



66. A federal entity shall treat any difference between the fair value of the loan and the transaction price (loan returns) as follows:

- A. When the loan is received by the entity, the difference is recorded in accordance with FGAAS 23 "Revenue from Non-Exchange Transactions";
- B. When the loan is granted by the entity, the difference is recorded as an expense in surplus or deficit on initial recognition, except when the loan represents a transaction with the owner. For example, when a controlling entity provides a concessionary loan to a controlled entity, the difference could represent a capital contribution, such as an investment in the entity rather than an expense.



67. For concessionary loans granted and measured at amortized cost in accordance with paragraph 14 of FGAAS 41 "Financial Instruments: Recognition and Measurement", a federal entity shall disclose:

- A. A reconciliation between the opening and closing carrying amounts of the loans, including:
 - ✓ Nominal value of new loans granted during the period;
 - ✓ The fair value adjustment on initial recognition;
 - ✓ Loans repaid during the period;
 - ✓ Impairment losses recognized;
 - ✓ Any increase during the period in the discounted amount arising from the passage of time; and
 - ✓ Other changes.
- B. Nominal value of the loans at the end of the period;
- C. The purpose and terms of the various types of loans; and
- D. Valuation assumptions.



68. For concessionary loans measured at fair value in accordance with paragraph 15 or 17 of FGAAS 41 “Financial Instruments: Recognition and Measurement”, a federal entity shall disclose:

- A. A reconciliation between the opening and closing carrying amounts of the loans, including:
 - ✓ Nominal value of new loans granted during the period;
 - ✓ The fair value adjustment on initial recognition;
 - ✓ Loans repaid during the period;
 - ✓ The fair value adjustment during the period (separate from initial recognition); and
 - ✓ Other changes.
- B. Nominal value of the loans at the end of the period;
- C. The purpose and terms of the various types of loans, including the nature of the concession; and
- D. Valuation assumptions.

Nature and Extent of Risks Arising from Financial Instruments



69. A federal entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the government entity is exposed at the end of the reporting period.
70. The disclosures required by paragraphs 73 - 95 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk, and market risk.
71. Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

Qualitative Disclosures



72. For each type of risk arising from financial instruments, a federal entity shall disclose:
- A. The exposures to risk and how they arise;
 - B. Its objectives, policies, and processes for managing the risk and the methods used to measure the risk; and
 - C. Any changes in (B) from the previous period.

Quantitative Disclosures



73. For each type of risk arising from financial instruments, a federal entity shall disclose:

- A. Summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the federal entity (as defined in FGAAS 20 "Related Party Disclosures").
- B. The disclosures required by paragraphs below, to the extent not provided in accordance with paragraph 90 - 95 (A).
- C. Concentrations of risk if not apparent from the disclosures made in accordance with (A) and (B).

74. If the quantitative data disclosed as at the end of the reporting period are unrepresentative of a federal entity's exposure to risk during the period, a federal entity shall provide further information that is representative.

Credit Risk

Scope and Objectives



75. A federal entity shall apply the disclosure requirements in paragraphs 81 - 89 related to credit risk, to financial instruments to which the impairment requirements in FGAAS 41 "Financial Instruments: Recognition and Measurement" is applied. However:

- A. For receivables that result from exchange transactions that are within the scope of FGAAS 9 "Revenue from Exchange Transactions" and non-exchange transactions within the scope of FGAAS 23 "Revenue from Non-exchange Transactions" and lease receivables, paragraph 85 applies to those receivables or lease receivables on which lifetime expected credit losses are recognized in accordance with paragraph 59 of FGAAS 41 "Financial Instruments: Recognition and Measurement", if those financial assets are modified while more than 30 days past due; and
- B. Paragraph 86 does not apply to lease receivables.



76. The credit risk disclosures shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

- A. Information about a federal entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses;
- B. Quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and
- C. Information about a federal entity's credit risk exposure (i.e., the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

77. A federal entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.
78. To meet the objectives in paragraph 76, a federal entity shall (except as otherwise specified) consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.
79. If the disclosures provided in accordance with paragraphs 80 - 88 are insufficient to meet the objectives in paragraph 76, a federal entity shall disclose additional information that is necessary to meet those objectives.

The Credit Risk Management Practices



80. A federal entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective, a federal entity shall disclose information that enables users of financial statements to understand and evaluate:
- A. How a federal entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:
 - ✓ Financial instruments are considered to have low credit risk in accordance with paragraph 53 of FGAAS 41 “Financial Instruments: Recognition and Measurement”, including the classes of financial instruments to which it applies; and
 - ✓ The presumption in paragraph 54 of FGAAS 41 “Financial Instruments: Recognition and Measurement”, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted;
 - B. A federal entity’s definitions of default, including the reasons for selecting those definitions;
 - C. How the instruments were grouped if expected credit losses were measured on a collective basis;
 - D. How a federal entity determined that financial assets are credit-impaired financial assets;
 - E. A federal entity’s write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and

- F. How the requirements in paragraph 56 of FGAAS 41 “Financial Instruments: Recognition and Measurement” for the modification of contractual cash flows of financial assets have been applied, including how a federal entity:
- ✓ Determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with paragraph 77 of FGAAS 41 “Financial Instruments: Recognition and Measurement”; and
 - ✓ Monitors the extent to which the loss allowance on financial assets meeting the criteria in item (1) is subsequently remeasured at an amount equal to lifetime expected credit losses.

81. A federal entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements of impairments in paragraphs 44 - 65 of FGAAS 41 “Financial Instruments: Recognition and Measurement”. For this purpose, a federal entity shall disclose:

- A. The basis of inputs and assumptions and the estimation techniques used to:
- ✓ Measure the 12-month and lifetime expected credit losses;
 - ✓ Determine whether the credit risk of financial instruments has increased significantly since initial recognition; and
 - ✓ Determine whether a financial asset is a credit-impaired financial asset.
- B. How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and
- C. Changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

Quantitative and Qualitative Information about Amounts Arising from Expected Credit Losses

82. To explain the changes in the loss allowance and the reasons for those changes, a federal entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

- A. The loss allowance measured at an amount equal to 12-month expected credit losses;
- B. The loss allowance measured at an amount equal to lifetime expected credit losses for:
- ✓ Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;
 - ✓ Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and
 - ✓ Receivables that result from exchange transactions that are within the scope of FGAAS 9 “Revenue from Exchange Transactions” or non-exchange transactions that are within the scope of FGAAS 23 “Revenue from Non-Exchange Transactions” or lease receivables for which the loss allowances are

measured in accordance with paragraph 59 of FGAAS 41 "Financial Instruments: Recognition and Measurement".

- C. Financial assets that are purchased or originated credit impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognized during the reporting period.

83. To enable users of financial statements to understand the changes in the loss allowance disclosed, a federal entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:

- A. Changes because of financial instruments originated or acquired during the reporting period;
- B. The modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with FGAAS 41 "Financial Instruments: Recognition and Measurement";
- C. Changes because of financial instruments that were derecognized (including those that were written-off) during the reporting period; and
- D. Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.

84. To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses, an entity shall disclose:

- A. The amortized cost before the modification and the net modification gain or loss recognized for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses; and
- B. The gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.

85. To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument:

- A. The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g., netting agreements that do not qualify for offset).
- B. A narrative description of collateral held as security and other credit enhancements, including:
 - ✓ A description of the nature and quality of the collateral held;
 - ✓ An explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and
 - ✓ Information about financial instruments for which an entity has not recognized a loss allowance because of the collateral.
- C. Quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.

86. An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

Credit Risk Exposure



87. To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, a federal entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:
- A. For which the loss allowance is measured at an amount equal to 12-month expected credit losses;
 - B. For which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:
 - ✓ Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;
 - ✓ Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and
 - ✓ Receivables that result from exchange transactions that are within the scope of FGAAS 9 "Revenue from Exchange Transactions" or non-exchange transactions that are within the scope of FGAAS 23 "Revenue from Non-Exchange Transactions" or lease receivables for which the loss allowances are measured in accordance with paragraph 59 of FGAAS 41 "Financial Instruments: Recognition and Measurement".
 - C. That are purchased or originated credit-impaired financial assets.
88. For receivables that result from exchange transactions that are within the scope of FGAAS 9 "Revenue from Exchange Transactions" or non-exchange transactions that are within the

scope of FGAAS 23 "Revenue from Non-Exchange Transactions" or lease receivables to which an entity applies paragraph 59 of FGAAS 41 "Financial Instruments: Recognition and Measurement", the information provided in accordance with paragraph 87 may be based on a provision matrix.



89. For all financial instruments within the scope of this Standard, but to which the impairment requirements in FGAAS 41 "Financial Instruments: Recognition and Measurement" is not applied, a federal entity shall disclose by class of financial instrument:

- A. The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements;
- B. A description of collateral held as security and other credit enhancements, and their financial effect (e.g., quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument);

Collateral and Other Credit Enhancements Obtained



90. When a federal entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g., guarantees), and such assets meet the recognition criteria in other Standards, a federal entity shall disclose for such assets held at the reporting date:

- A. The nature and carrying amount of the assets; and
- B. When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Liquidity Risk



91. A federal entity shall disclose:

- A. A maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
- B. A maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.
- C. A description of how it manages the liquidity risk inherent in (A) and (B).

Market Risk

Sensitivity Analysis



92. Unless a federal entity complies with paragraph 93, it shall disclose:

- A. A sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit and net assets/equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
- B. The methods and assumptions used in preparing the sensitivity analysis; and
- C. Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

93. If a federal entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g., interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 92. The federal entity shall also disclose:

- A. An explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
- B. An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Other Market Risk Disclosures



94. When the sensitivity analyses disclosed in accordance with paragraphs 92 or 93 are unrepresentative of a risk inherent in a financial instrument (e.g., because the year-end exposure does not reflect the exposure during the year), the federal entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

Transfers of Financial Assets



95. The disclosure requirements in the following paragraphs 96 - 97 relating to transfers of financial assets supplement the other disclosure requirements of this Standard. A federal entity shall present the disclosures required in a single note in its financial statements. A

federal entity shall provide the required disclosures for all transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, a federal entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

- A. Transfers the contractual rights to receive the cash flows of that financial asset; or
- B. Retains the contractual rights to receive the cash flows of that financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

96. A federal entity shall disclose information that enables users of its financial statements:

- A. To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and
- B. To evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

97. For the purposes of applying the disclosure requirements in paragraphs 100 - 102 related to transferred financial assets that are derecognized in their entirety, a federal entity has continuing involvement in a transferred financial asset if, as part of the transfer, the federal entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying those disclosure requirements in paragraphs 100 - 102, the following do not constitute continuing involvement:

- A. Normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;
- B. Forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or
- C. An arrangement whereby a federal entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 90 of FGAAS 41 "Financial Instruments: Recognition and Measurement" is met.

Transferred Financial Assets that are Not Derecognized in Their Entirety

98. A federal entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. The federal entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognized in their entirety:

- A. The nature of the transferred assets.



- B. The nature of the risks and rewards of ownership to which the federal entity is exposed.
- C. A description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.
- D. When the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).
- E. When the federal entity continues to recognize all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.

Transferred Financial Assets that are Derecognized in Their Entirety

99. When a federal entity derecognizes transferred financial assets in their entirety but has continuing involvement in them, the federal entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

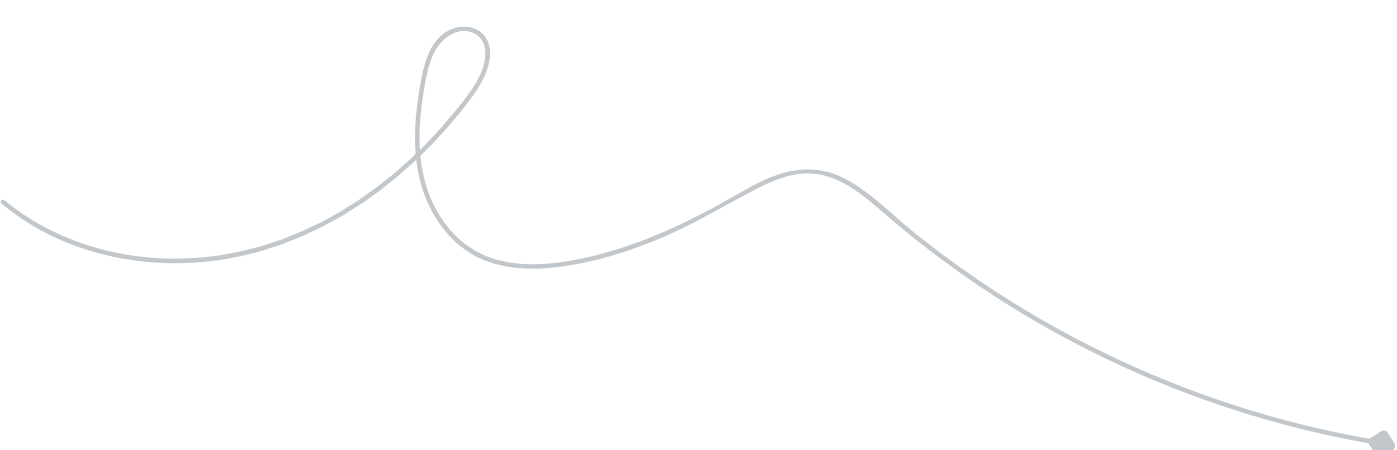
- A. The carrying amount of the assets and liabilities that are recognized in the entity's statement of financial position and represent the entity's continuing involvement in the derecognized financial assets, and the line items in which the carrying amount of those assets and liabilities are recognized.
- B. The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognized financial assets.
- C. The amount that best represents the federal entity's maximum exposure to loss from its continuing involvement in the derecognized financial assets, and information showing how the maximum exposure to loss is determined.
- D. The undiscounted cash outflows that would or may be required to repurchase derecognized financial assets (e.g., the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.
- E. A maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.
- F. Qualitative information that explains and supports the quantitative disclosures required in (A) - (E).

100. A federal entity may aggregate the information required by paragraph 90 in respect of a particular asset if the federal entity has more than one type of continuing involvement in that derecognized financial asset and report it under one type of continuing involvement.



101. In addition, a federal entity shall disclose for each type of continuing involvement:

- A. The gain or loss recognized at the date of transfer of the assets.
- B. Revenue and expenses recognized, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognized financial assets (e.g., fair value changes in derivative instruments).
- C. If the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (e.g., if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):
 - ✓ When the greatest transfer activity took place within that reporting period (e.g., the last five days before the end of the reporting period),
 - ✓ The amount (e.g., related gains or losses) recognized from transfer activity in that part of the reporting period, and
 - ✓ The total amount of proceeds from transfer activity in that part of the reporting period.
 - ✓ The federal entity provides this information for each period in which the statement of net assets/equity is presented.



Standard 5 - Borrowing Costs

Standard 5 - Borrowing Costs

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 5 (IPSAS 5) which deals with borrowing costs. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to prescribe the accounting treatment for borrowing costs, and explain their capitalization requirements and related application bases.

Scope

2. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards (FGAAS) as detailed in the introduction thereto.
3. This Standard does not deal with the actual or imputed cost of net assets/equity.
4. Borrowing costs shall include:

- A. Interest on bank overdrafts and short-term and long-term borrowings;
- B. Amortization of discounts or premiums relating to borrowings;
- C. Amortization of ancillary costs incurred in connection with the arrangement of borrowings;
- D. Interest in respect of lease liabilities and service concession arrangements;
- E. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition of Borrowing Costs

Recognition and Capitalization of Borrowing Costs on All Qualifying Assets

5. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset when the following conditions are met:
 - A. The asset will result in future economic benefits or service potential to the federal entity;
 - B. Costs can be measured reliably.

Other borrowing costs that do not meet the conditions above shall be recognized as expenses in the same period in which they are incurred.

Example 5.1 - Examples of Qualifying Assets

Office buildings, hospitals, infrastructure assets such as roads and power plants, as well as inventories that require long periods to become ready for use or sale.

Borrowing Costs Eligible for Capitalization

6. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those costs that would have been avoided if the outlays on the qualifying asset had not been made. Therefore, a federal entity shall identify the direct

relationship between individual qualifying assets, and identify borrowing that would have been avoided.

7. In some cases, it may be difficult to identify the borrowing costs that are directly attributable to a qualifying asset and judgment may be required.



Example 5.2 - Cases in Which it is Difficult to Identify Borrowing Costs that are Directly Attributable to a Qualifying Asset

- ✓ Central coordination of a federal entity's financing activity;
- ✓ Using a range of debt instruments to borrow funds at varying rates of interest;
- ✓ Transferring borrowed funds on various bases to other entities in the economic entity;
- ✓ Using loans denominated in or linked to foreign currencies;
- ✓ Fluctuations in exchange rates.

Measurement of Borrowing Costs

8. Where borrowed funds are obtained for a qualifying asset and a federal entity may need to pay some of the borrowing costs before some or all of those funds are spent on the qualifying asset, the federal entity usually invests these funds temporarily until they are spent on the qualifying asset.
9. If borrowed funds are invested in accordance with paragraph 8, borrowing costs that are eligible for capitalization on the cost of a qualifying asset shall be determined by calculating the probable actual borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.
10. Where funds are borrowed generally or in cases of centrally coordinated financing arrangements, a capitalization rate shall be calculated and applied to borrowing costs that are eligible for capitalization on a qualifying asset. The capitalization rate shall be the weighted average of the borrowing costs arising from the borrowings of the federal entity that are outstanding during the period, other than funds borrowed for a specific qualifying asset.
11. A federal entity shall capitalize probable borrowing costs such that they do not exceed the borrowing costs incurred during the same period.
12. When a controlling federal entity transfers borrowed funds to a controlled federal entity without allocation of borrowing costs, in part or whole, the controlled federal entity may capitalize only those borrowing costs which it has incurred
13. Where a controlled federal entity receives an interest-free capital contribution or capital grant, it shall not incur any borrowing costs and, consequently, shall not capitalize any borrowing costs.
14. When a controlling federal entity in an economic entity transfers funds at partial cost to a controlled federal entity, the controlled federal entity may capitalize that portion of



borrowing costs which it has incurred. The full amount of borrowing costs may be capitalized to the qualifying asset in the financial statements of the economic entity, provided that appropriate consolidation adjustment entries have been made when consolidating the financial statements to eliminate those costs capitalized by the controlled federal entity.

15. When a controlling federal entity transfers funds at no cost to a controlled federal entity, neither entity may capitalize borrowing costs. However, if the economic entity met the criteria for capitalization of borrowing costs, it may capitalize the borrowing costs to the qualifying asset in its financial statements.
16. In some cases, it may be appropriate to include all borrowings of the controlling and controlled federal entities when computing a weighted average of the borrowing costs. In other cases, each federal entity may calculate a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the Carrying Amount of a Qualifying Asset over its Recoverable Amount

17. When the carrying amount or the expected ultimate value of a qualifying asset exceeds its recoverable amount or net realizable value, the carrying amount shall be written down or written off in accordance with FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets". In certain cases, the amount of the write-down or write-off shall be recovered in accordance with those standards.

Commencement of Capitalization



18. The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when:
 - A. Expenses on the asset are being incurred;
 - B. Borrowing costs are incurred;
 - C. Activities that are necessary to prepare the asset for its intended use or sale are in progress.
19. Expenditure on a qualifying asset shall include only cash payments, transfers of other assets or the assumption of interest-bearing liabilities. The average carrying amount of the qualifying asset during a period, including borrowing costs previously capitalized, shall be a reasonable approximation of the expenditure to which the capitalization rate is applied in the same period.
20. The activities necessary to prepare an asset for its intended use or sale shall include technical and administrative work prior to actual construction (such as obtaining permits) and shall not be limited to actual construction of the asset. However, such activities shall exclude the holding of the asset without any production or development that changes its condition.



Example 5.3 - Activities Necessary to Prepare an Asset for its Intended Use or Sale

A federal entity plans to purchase an agricultural land to build a plant on it, which requires obtaining the necessary construction permits from the competent local authorities.

The entity's management financed the purchase through a loan from a bank to be repaid over seven years as of the date set for completing the plant.

The management is confident that it will get approval for using the land because the new plant will create 1,000 new jobs for the area.

Changing the use of the land is a necessary activity to prepare the asset for use. Therefore, the federal entity may capitalize the borrowing costs relating to the loan used to finance the purchase of the land until local authorities' approval is obtained.

The management should cease the capitalization of the borrowing costs and review the asset's carrying amount in order to check it for impairment if, during the approval procedures, it becomes aware that it is unlikely for it to obtain such approval.

The aforementioned conclusion depends on the expected local authorities' approval of the change in the use of land. Therefore, interest shall not be capitalized if there is a possibility that the authorities will refuse to approve the change in the use of the land, because, in such a case, the plant will not be built.

**Example 5.4 - Activities Necessary to Prepare an Asset for its Intended Use or Sale**

Using the same inputs provided in the previous example, upon obtaining the necessary approval and purchasing the land:

- ✓ If the land is developed, probable borrowing costs shall be capitalized to the land over the development period.
- ✓ If the land is held without any development activity, borrowing costs shall not be eligible for capitalization and shall be treated as an expense for the period in which they are incurred by the federal entity.

Suspension of Capitalization of Borrowing Costs Due to Interruption of Active Development

21. During extended periods of interruption of active development, the capitalization of borrowing costs shall be suspended and they shall be recognized as expenses.
22. Capitalization of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.



Example 5.5 - Suspension of Capitalization of Borrowing Costs.4

Construction works on a highway were discontinued due to winter floods which are normal in the affected area. The management wants to capitalize the borrowing costs.

Cessation of construction works is temporary but necessary for a normal reason (floods) in the affected area. The circumstances of the construction schedule are part of the normal conditions under which construction needs to take place. Therefore, capitalization continues during that period.

Cessation of Capitalization of Borrowing Costs

23. This Standard requires cessation of capitalization of borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Therefore, an asset shall normally be ready for its intended use or sale when its construction is complete even with unfinished routine administrative work or ongoing minor modifications.



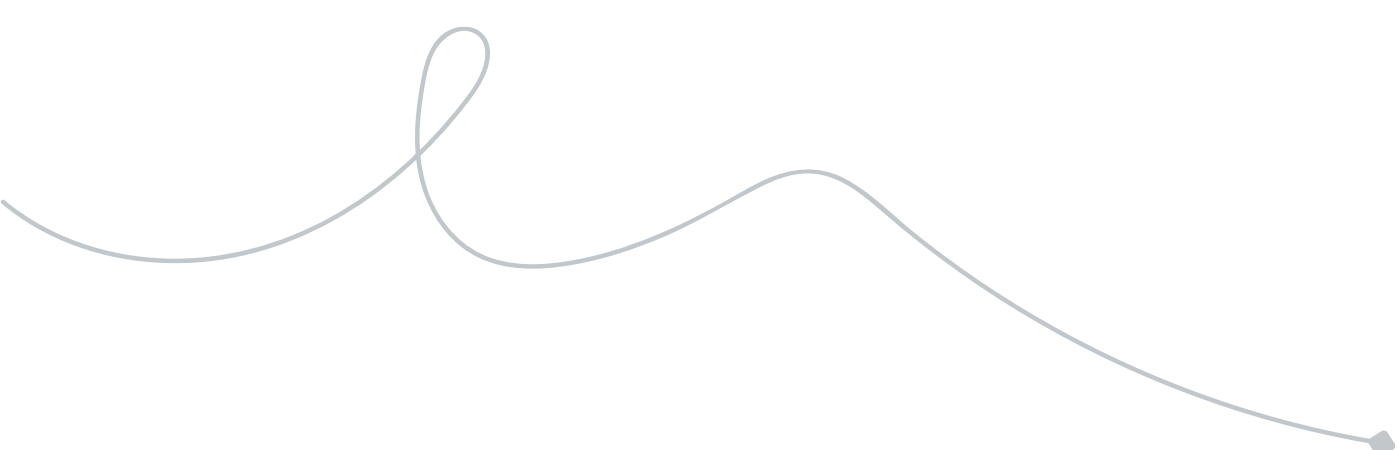
24. When the construction of a qualifying asset is completed in parts and each separate part can be used while construction continues on other parts, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

**Example 5.6 - Capitalization of Borrowing Costs for Part of a Qualifying Asset**

- ✓ An office development comprising several buildings, each of which can be used individually: Capitalization of borrowing costs ceases when a building that can be used separately is complete while development continues on other parts of the project.
- ✓ A sewage treatment plant where each process in the plant depends on another one and cannot be carried out individually: Capitalization of borrowing costs does not cease when construction of one part of the plant is complete, but rather when construction of the entire plant is complete and the plant is ready for use.

Presentation and Disclosure

25. The following shall be disclosed in a federal entity's financial statements:
- A. The accounting policy adopted for borrowing costs;
 - B. The amounts of borrowing costs capitalized during the period;
 - C. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (used for funds borrowed in general).



Standard 4 - The Effects of Changes in Foreign Exchange Rates

Standard 4 - The Effects of Changes in Foreign Exchange Rates

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 4 (IPSAS 4) which prescribes the treatment of effects of changes in foreign exchange rates. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. A federal entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In order to include foreign currency transactions and foreign operations in the financial statements of a federal entity, transactions should be presented in the functional currency of the federal entity and the financial statements of foreign operations should be translated into the presentation currency of the federal entity.
2. This Standard primarily addresses the following topics:
 - A. Determining the functional currency of a federal entity, as well as monetary and non-monetary items;
 - B. How to recognize foreign currency transactions when they take place;
 - C. The bases for reassessing the balances of foreign currencies when they accrue or when preparing closing reports;
 - D. The controls on translating operations carried in foreign currencies into the adopted presentation currency;
 - E. The necessary disclosures of foreign currency transactions in the financial statements of a federal entity.

Scope



3. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto.



4. A federal entity that prepares and presents financial statements under the accrual accounting basis shall apply this Standard to:
 - A. Accounting for foreign currency transactions and balances, with the exception of transactions and balances of derivatives within the scope of FGAAS 41, "Financial Instruments"
 - B. Translation of financial statements of foreign operations included in the financial statements of a federal entity by consolidation or the equity method;
 - C. Translation of the financial statements and statement of financial position of a federal entity into a particular presentation currency.



5. This Standard shall not apply to foreign currency derivatives within the scope of FGAAS 41, "Financial Instruments". However, some foreign currency derivatives (such as foreign currency derivatives that are embedded in other contracts) are not within the scope of FGAAS 41 "Financial Instruments" and are, therefore, within the scope of this Standard. In addition, this Standard shall apply when a federal entity translates amounts relating to derivatives from its functional currency to its presentation currency.

6. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. FGAAS 41 Financial Instruments applies to hedge accounting.
7. This Standard does not deal with the presentation of cash flows arising from foreign currency transactions in the cash flow statement, or the translation of cash flows in foreign currencies (see FGAAS 2 "Cash Flow Statements").

Determining a Functional Currency



8. A federal entity shall determine its functional currency by studying the economic environment in which it operates. The primary economic environment in which a federal entity operates is the one in which it primarily generates and expends cash. Therefore, a federal entity shall consider the following factors in determining its functional currency:

Primary Elements that Need to be Considered	Secondary Elements that May be Considered
A. The currency that the federal entity's revenue is raised from, such as taxes, grants, fines and services; B. The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. C. The currency that mainly influences labor, material and other costs of providing goods and services	A. The currency in which funds from financing activities (i.e. requesting loans or issuing debentures) are generated. B. The currency in which receipts (receivables) from operating activities are usually recorded.

9. A federal entity may also consider the following additional factors in determining the functional currency (the foreign federal entity, in this context, being the entity that has the foreign operations or a controlled entity, branch, associate or joint venture of the federal entity that prepares its financial statements in accordance with this Standard):
 - A. Whether the activities of foreign operations are carried out as an extension of the reporting federal entity, rather than being carried out with a significant degree of autonomy.
 - B. Whether transactions with the reporting federal entity are a high or a low proportion of the foreign operation's activities.
 - C. Whether cash flows from the activities of foreign operations directly affect the cash flows of the reporting federal entity and are readily available for remittance to it.
 - D. Whether cash flows from the activities of foreign operations are sufficient to meet existing and expected financial obligations without financial support being provided by the reporting federal entity.
10. When the above indicators are mixed and the functional currency is not obvious, a federal entity shall use its professional judgment to determine the functional currency that reflects the economic nature of the underlying transactions, events and conditions.
11. Once the functional currency is determined, the federal entity shall not change it unless there is a change in the economic nature of the underlying transactions, events and conditions.



Example 4.1 - Identifying Foreign Currency Transactions

A federal entity carries out the following transactions:

- ✓ Selling goods and providing services in the UAE, using the AED for invoicing and collecting revenue;
- ✓ All employees' salaries and operating expenses of the federal entity are paid in AED;
- ✓ All the equipment and materials used by the federal entity are purchased from private establishment and paid for in USD;
- ✓ The Ministry of Finance provides the federal entity with necessary funds by transferring liquidity in AED.

Accordingly, and despite the significant foreign currency transactions (purchase of equipment and materials), the AED is the functional currency of this federal entity because the revenue arising from transfers, sales and service provision is in AED.

Identifying Monetary Items

12. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.



Example 4.2 - Monetary and Non-monetary Items**Examples of monetary items include:**

- ✓ Financial assets: Cash, cash with banks and receivables;
- ✓ Financial liabilities: Payables;
- ✓ Lease liabilities
- ✓ Loans and debts.

Examples of non-monetary items include:

- ✓ Tangible assets (e.g. property, plant and equipment);
- ✓ Right-of-use asset;
- ✓ Intangible assets;
- ✓ Inventories;
- ✓ Amounts prepaid for goods and services;
- ✓ Provisions that are to be settled by the delivery of a non-monetary asset.

Net Investment in Foreign Operations

13. A federal entity may have a monetary item that is receivable from or payable to foreign operations (a consulate in a foreign country). Such an item is, in substance, a part of the federal entity's net investment in foreign operations, and is therefore accounted for in accordance with paragraphs 24 and 25. Such monetary items may include long-term receivables or loans, but shall not include trade receivables or trade payables.

Reporting Foreign Currency Transactions in the Functional currency**Initial Recognition**

14. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when a federal entity:
- A. Purchases or sells goods or services the price of which is denominated in a foreign currency;
 - B. Lends or borrows funds when the amounts receivable or payable are denominated in a foreign currency;
 - C. Acquires or disposes of assets through transactions denominated in a foreign currency;
 - D. Incurs or settles liabilities denominated in a foreign currency.



15. A federal entity shall record a foreign currency transaction, on initial recognition, by translating it to the functional currency of the federal entity. The translation shall be carried out using the spot exchange rate (the exchange rate between the foreign currency and the functional currency) at the date of the transaction.



16. The date of a transaction is the date on which the transaction meets all the requirements for recognition on the accrual basis in accordance with FGAASs.



Example 4.3 - Initial Recognition

On December 15, a federal entity purchased goods from a foreign supplier for the value of Euro 10,000 and agreed to pay this amount in the invoicing currency after one month. The current exchange rate between the Euro and AED (the functional currency of the federal entity) on the date of the transaction is (Euro 1 equals AED 4.5662).

Accordingly, the federal entity makes the following entry on the date of the transaction:

Description	Debit	Credit
Expenses / Purchase of Goods (10,000 x 4.5662)	45,662	
Liability / Payables		45,662

Revaluation at the Reporting Date

17. At each closing and reporting date, a federal entity shall:
 - A. Revalue monetary items receivable or payable in a foreign currency using the closing rate;
 - B. Record non-monetary items held at historical cost in a foreign currency using the exchange rate at the date of the transaction;
 - C. Record non-monetary items held at fair value in a foreign currency using the exchange rates at the dates when fair value was determined.
18. The carrying amount of some items shall be determined by comparing two or more amounts. When asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:
 - A. The cost or carrying amount, as appropriate, translated at the exchange rate at the date when that cost or amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost);
 - B. The net realizable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g., the closing rate at the reporting date).

This comparison may result in an impairment loss being recognized in the functional currency but not be recognized in the foreign currency, or vice versa.



19. When a period is closed, changes in exchange rates may affect cash or cash equivalents held or due in a foreign currency. FGAAS 2 "Cash Flow Statements" addresses the presentation of the differences related to such changes. Although such changes are not actual cash flows, changes in exchange rates for cash or cash equivalents held or due in a foreign currency shall be presented in the cash flow statement in order to reconcile cash or cash equivalents at the beginning and end of the period. Such amounts (differences, if any) shall be presented separately from cash flows from operating, investing and financing activities.

20. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporary lacking, the rate used is the first subsequent rate at which exchange could be made.

Recognition of Exchange Rate Differences



21. Exchange rate differences arise from the following transactions:

- A. Settlement of monetary items in a foreign currency;
- B. Revaluation of monetary items of a federal entity in its financial statements at the closing date using rates that are different from those at which they were previously recorded at initial recognition during the period or those used when these items were revalued in previous financial statements.



22. A federal entity shall recognize the differences arising from the transactions prescribed in paragraph 20 in the statement of financial performance (surplus or deficit) for the period in which they arise, with the exception of exchange difference described in paragraph 24.
23. When a federal entity recognizes a gain or loss related to a non-monetary item directly in net assets, the federal entity shall recognize gain or loss relating to the exchange rate changes component directly in net assets. In the same context, when a federal entity recognizes a gain or loss related to a non-monetary item in the statement of financial performance, any difference in exchange rates related to that profit or loss must be recognized in the statement of financial performance.



Example 4.4 - Reporting at a Subsequent Reporting Date

Example 4.3 continued

Initially, the federal entity prepares the financial statements for the period ending on December 31, then settles the liability (Euro 10,000), as agreed, after one month of the date of the transaction (on January 15).

Exchange rates on these dates are as follows:

- ✓ December 31 (closing and reporting date) (Euro 1 equals AED 4.4431);
- ✓ January 15 (payment date) (Euro 1 equals AED 4.2705).

Accordingly, the federal entity makes the following entry at the closing date:

Description	Debit	Credit
Liability / Payables (10,000 x (4.5662 - 4.4431))	1,231	
Gain from currency differences		1,231

On the payment date, the federal entity makes the following entry:

Description	Debit	Credit
Liability / Payables (45,662 - 1,231)	44,431	

Example 4.4 - Reporting at a Subsequent Reporting Date

Gain from Currency Differences		1,726
Cash (10,000 x 4.2705)		42,705



24. For net investment in foreign operations, when preparing the financial statements at the closing date, a federal entity shall recognize gains and losses arising from exchange rate differences (if any) relating to the monetary item that is part of net investment in foreign operations of the federal entity (see paragraph 13) in the statement of financial performance in the federal entity's separate financial statements (if the monetary item is recorded in a currency other than the federal entity's functional currency), or in the separate financial statements of foreign operations (if the monetary item is recorded in a currency other than the functional currency of foreign operations), as appropriate.
25. When preparing consolidated financial statements (which include foreign operations and the financial statements of the federal entity), a federal entity shall initially recognize the exchange rate differences described in paragraph 24 in a separate item in net assets, and shall recognize these differences in the statement of financial performance upon disposal (sale or liquidation) of net investment in foreign operations in question (in accordance with paragraph 39).
26. A federal entity may keep its accounts in a foreign currency and record all its transactions in a currency other than its functional currency. In this case, at the time the federal entity prepares its financial statements, all amounts shall be translated into the functional currency. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items shall be translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis shall be translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

27. When there is a change in a federal entity's functional currency, the federal entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.
28. As noted in paragraph 8, the functional currency of a federal entity shall reflect the transactions, events and conditions that are relevant to the federal entity. Therefore, once a functional currency is determined, it may only be changed if there is a change in the relevant transactions, events and conditions.
29. The effect of a change in functional currency shall be accounted for prospectively. In other words, a federal entity shall translate all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items shall be treated as their historical cost. Exchange differences arising from the

translation of foreign operations previously classified in net assets shall not be recognized in the statement of financial performance until the disposal (sale or liquidation) of these operations.

Use of a Presentation Currency Other than the Functional Currency

Translation into the Presentation currency including Translation of Financial Statements of Foreign Operations



30. A federal entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the federal entity's functional currency, it shall translate its financial performance and financial position into the presentation currency.



31. The statements of financial performance and financial position of a federal entity shall be translated from the functional currency into a different presentation currency using the following procedures:

- A. Assets and liabilities in the statement of financial position (including comparative amounts) shall be translated at the closing rate at the date of that statement of financial position;
- B. Revenue and expenses in the statement of financial performance (including comparative amounts) shall be translated at exchange rates at the dates of the transactions;
- C. All resulting exchange differences shall be recognized as a separate component of net assets.



32. A federal entity shall use the average exchange rate on the dates of transactions, such as the average rate for the period, to translate revenue and expenses. However, if exchange rates fluctuate significantly, the use of the average rate for a period would be inappropriate. A federal entity shall not recognize the resulting exchange differences in the statement of financial performance because exchange differences have an insignificant or indirect effect on current and future cash flows from operations. Such differences shall be recognized in a separate item in net assets.

33. For exchange rates relating to foreign operations that are consolidated in a federal entity's financial statements but are not wholly owned, the federal entity shall allocate the portion of cumulative exchange differences arising from the translation and attributable to the non-controlling interest, and shall recognize it as part of this interest in the consolidated statement of financial performance.



34. For cash flows statement, a reporting federal entity shall comply with the procedures prescribed in FGAAS 2 "Cash Flow Statements". This Standard requires the cash flows of a controlled foreign federal entity that meet the definition of foreign operations to be translated using the exchange rate between the presentation currency and the foreign currency at the date of preparation of the cash flow statement. FGAAS 2 "Cash Flow Statements" also prescribed the presentation of unrealized gains and losses arising from

exchange differences in the foreign currency for cash and cash equivalents held or due in a foreign currency.



35. For the translation of the statements of financial performance and financial position, a federal entity preparing consolidated financial statements shall apply the procedures prescribed in paragraphs 31 to 34 of this Standard to translate the financial statements of foreign operations so that they can be included in the consolidated financial statements (by consolidation or the equity method).
36. A federal entity shall apply the procedures prescribed in FGAAS 35 "Consolidated Financial Statements", particularly with respect to the elimination of balances and transactions between entities the financial statements of which are consolidated. However, a monetary asset or liability within a federal entity, whether short-term or long-term, cannot be eliminated against the corresponding liability or asset within another federal entity without showing the results of currency fluctuations in the consolidated financial statements. This is because:
- A. The monetary item includes a commitment to convert one currency into another;
 - B. It exposes the federal entity in question to gains or losses arising from currency fluctuations.

Therefore, the federal entity shall continue, in its consolidated financial statements, to recognize such an exchange difference in the statement of financial performance or, if it arises from the circumstances described in paragraphs 24 and 25, it shall be classified in net assets until the disposal of the foreign operations (paragraph 39).



37. When the financial statements of foreign operations are as of a date different from that of the financial statements of the federal entity preparing the consolidated financial statements, the foreign operation (e.g. consulate) shall prepare additional financial statements as of the same date as the federal entity's financial statements. When this is not done, FGAAS 35 "Consolidated Financial Statements" allows the use of a different date for the financial statements of foreign operations, provided that:
- A. The difference is not greater than three months;
 - B. Adjustments are made for the effects of any significant transactions or other events that occur between the different dates.
38. When there is a difference between the reporting date of foreign operations and the reporting date of the federal entity, the assets and liabilities of the foreign operations shall be translated at the exchange rate at the reporting date of the foreign operations.
39. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operations. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate.

Disposal of a Foreign Federal Entity



40. On the disposal (sale or liquidation) of foreign operations (e.g. consulate), the cumulative amount of the exchange differences classified in a separate item of net assets shall be recognized in the same period in which the disposal takes place.
41. In the event of partial disposal, the proportionate share of the related cumulative exchange difference classified in a separate item of net assets shall be included in the statement of financial performance. A write-down of the carrying amount of net investment in foreign operations shall not constitute a partial disposal. Therefore, no part of the cumulative foreign exchange difference shall be recognized in the statement of financial performance at the time of the write-down.

Disclosures



42. A federal entity shall disclose:
- A. The amount of exchange differences recognized in the statement of financial performance except for those arising from financial instruments measured at fair value through surplus or deficit in accordance with FGAAS 41 "Financial Instruments";
 - B. Net exchange differences classified in a separate item of net assets, and a reconciliation of the amount of exchange differences at the beginning and end of the period.



43. When the functional currency is different from the presentation currency, this fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.



44. When there is a change in the functional currency (of the reporting federal entity or foreign operations), that change and the reason for it shall be disclosed.
45. When a federal entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with FGAASs only if they comply with all the requirements of all Standards, including the translation method prescribed in paragraph 31.
46. When a federal entity presents its financial statements or other financial information in a currency that is different from its functional currency or its presentation currency and the requirements of paragraph 31 are not met, it shall:
- A. Clearly identify the information as supplementary information to distinguish it from the information required by FGAASs;
 - B. Disclose the currency in which the supplementary information is presented;
 - C. Disclose the federal entity's functional currency and the method of currency translation used to determine the supplementary information.

Transitional Provisions

Under the requirements of FGAAS 33 “First-time Adoption of the Accrual Basis”, a federal entity adopting FGAASs for the first time may change its accounting policies relating to recognition, measurement and disclosure of transactions related to financial instruments (including borrowing costs and the effects of changes in foreign exchange rates) prior to the expiry of the grace period of three years from the date of adopting FGAASs in the preparation of financial statement.

Effective Date

The provisions of these Standards shall apply after the adoption of the FGAASs of UAE.

Technical References

- IPSAS 28 - Financial Instruments: Presentation.
- IPSAS 41 - Financial Instruments
- IPSAS 30 - Financial Instruments: Disclosures.
- IPSAS 5 - Borrowing Costs.
- IPSAS 4 - The Effects of Changes in Foreign Exchange Rates.



Section - Revenue

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Document Control

This document contains Federal Government Accrual Accounting Standard relating to recording revenue of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	November 2020	December 2020	• Adding Paragraph 12 related to identifying a transaction in Standard 9 "Revenue from Exchange Transactions". • Adding Paragraph 30 related to interest, exclusive rights and dividends in Standard 9 "Revenue from Exchange Transactions". • Adding Paragraph 4 related to scope in Standard 23 "Revenue from Non-exchange Transactions". • Adding Paragraph 20 related to expenditures paid from the tax system and tax expenditures in Standard 23 "Revenue from Non-exchange Transactions". • Adding Paragraph 33 related to the percentage of completion method in Standard 11 "Revenue from Construction Contracts".

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to revenue and the bases for its classification according to the nature of transactions, in addition to the manner of recognizing, calculating, presenting, measuring and disclosing all revenue in financial statements.

This Standard shall apply to any federal entity which, according to this Standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Overview of the Federal Government's Revenue

This document covers the following types of federal entities' revenue, classified in three primary groups in accordance with the nature and substance of transactions; rather than their form:

- A. Revenue from exchange transactions: This type of revenue arises from transactions in which a federal entity receives assets or services or amortizes liabilities, and directly gives approximately equal value (in the form of cash, goods, services or use of assets).
- B. Revenue from non-exchange transactions: This type of revenue arises from transactions through which a federal entity receives a value or asset or reduces a liability of another entity without giving equal value in exchange, or gives a value or asset or reduces a liability of another entity without receiving equal value in exchange.
- C. Revenue from construction contracts: This type of revenue arises when a federal entity that is specialized in construction enters into a contract or binding agreement specifically negotiated for the construction of an asset or a group of assets for another federal entity or a third party.

The a forementioned types of revenue include:

Revenue from Exchange Transactions	Revenue from Non-exchange Transactions	Revenue from Construction Contracts
• Rendering of services; • Sale of goods; • Interest; • Royalties; • Dividends.	• Taxes; • Transfers (including, but not limited to, contributions, fines and donations).	• Construction agreements and contracts.

Revenue arising from the following transactions, and discussed in other Standards, shall be excluded from the scope of this Standard:

- A. Leases, which are discussed in FGAAS 43;
- B. Changes in fair value of financial assets and liabilities, which are discussed in FGAAS 41;
- C. Recognition of and changes in fair value of biological assets relating to agricultural activity, which are discussed in FGAAS 27;
- D. Gains from the sale of property, plant and equipment, which are discussed in FGAAS 17;
- E. Dividends from investments which are accounted for under the equity method, which are discussed in FGAAS 36.

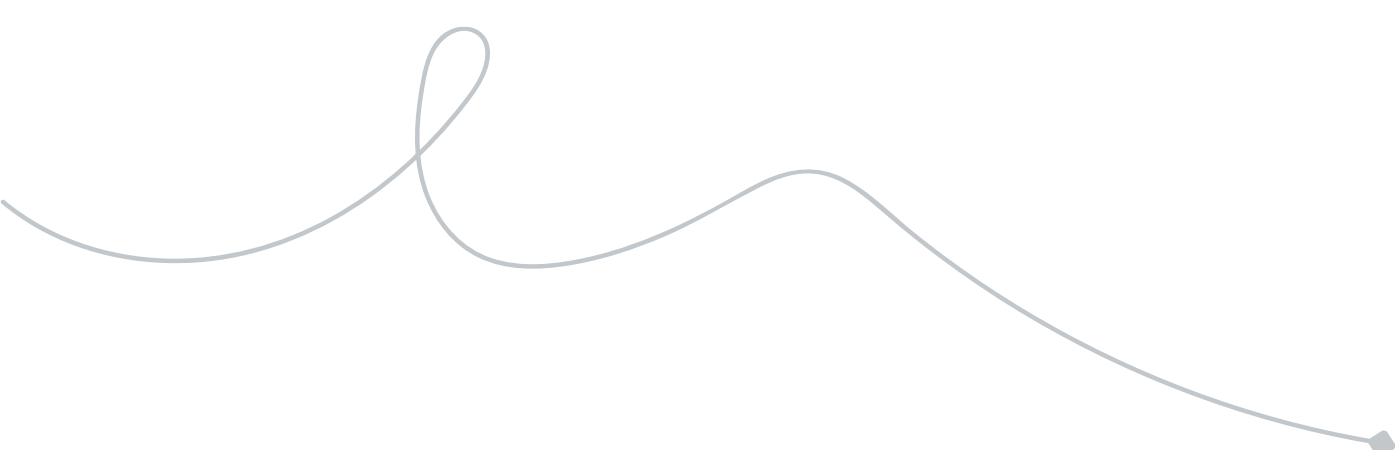
Definitions



The following terms are used in this Standard in the following context:

Term	Definition
Revenue	Revenue is the gross flow of economic benefits and service potential during the reporting period when those flows result in an increase in net assets, and don't represent increases relating to contributions from owners.
Transfers	Inflows of future economic benefits or services expected from non-exchange transactions, other than taxes.
Taxable Event	An event which the federal government determines will be subject to tax.
Control of an Asset	Control arises when a federal entity can use or otherwise benefit from the asset in pursuit of its objectives, and when a federal entity is able to exclude others from the use or the disposal of the asset without complying with specific conditions.
Conditions on Transferred Assets	Stipulations that specify that the expected future economic benefits or service potential embodied in the asset are required to be consumed by the recipient federal entity as specified, or otherwise, expected future economic benefits or service potential must be returned to the transferor federal entity.
Taxes	Economic benefits compulsorily paid or payable to government entities in accordance with laws and/or regulations established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.
Percentage of Completion Method	A method for recognizing revenue from a long-term construction contract, under which the percentage of work completed or costs incurred under the contract until the reporting date is assessed in order to recognize all costs and revenue in the last period of the execution of the contract and when execution is completed.
Construction Contract	A binding contract, specifically negotiated for the construction of an asset or a group of assets that are closely interrelated.
Fixed Price Contract	A construction contract in which the contractor agrees to a fixed contract price, which in some cases is subject to cost escalation clauses.
Cost or Cost Plus Based Contract	A construction contract in which the contractor is reimbursed for allowable costs subject to an overall limit defined in the contract. In

Term	Definition
	the case of a commercially-based contract, an additional percentage of these costs is agreed upon and recorded as fees.
Fines	Future economic benefits (in cash or in kind) received or receivable by government entities, as a consequence of the breach of laws or regulations.
Fair Value	The amount / value for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Restrictions on Transferred Assets	Stipulations that specify purposes for which an asset may be used, but do not specify that expected future economic benefits or service potential are required to be returned to the transferor federal entity if the asset is not used in accordance with the terms specified when the asset is transferred.
Contributions from Owners	Contributions relating to equity in a federal entity. Equity includes net assets (assets net of all liabilities) in the entity in question.
Exchange Transactions	Transactions through which a federal entity receives assets or services or amortizes liabilities, and directly gives approximately equal value (in the form of cash, goods, services or use of assets).
Non-exchange Transactions	Transactions through which a federal entity receives a value or asset or reduces a liability of another entity without giving equal value in exchange, or gives a value or asset or reduces a liability of another entity without receiving equal value in exchange.
Contractor	An entity that performs construction work pursuant to a construction contract.
In-kind Benefits	In-kind goods that are normally in the form of contributions, gifts or donations granted to a federal entity by the transferor federal entity.



Standard 9 - Revenue from Exchange Transactions

Standard 9 - Revenue from Exchange Transactions

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 9 (IPSAS 9) which deals with revenue from exchange transactions. It is worth mentioning that some text of standard 9 has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to understand and explain the accounting treatment of revenue from exchange transactions and prescribe the requirements relating to recognition of such revenue and its measurement bases. Exchange transactions are transactions through which a federal entity receives assets (such as cash) or services or amortises liabilities, and directly gives approximately equal value.
2. This Standard primarily addresses the following topics:
 - A. The requirements for recognition of exchange revenue and its measurement bases;
 - B. The requirements and bases for recognition of revenue from:
 - ✓ Services;
 - ✓ Sale of goods;
 - ✓ Interest;
 - ✓ Royalties;
 - ✓ Shares (dividends).

Scope



3. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto.
4. Government services include a set of services rendered by federal entities for which economic benefits are received and recorded as revenue including, for example, fees for the issuance of licenses, documents, certificates and permits and fees for tests and document authentication. In addition, the rendering of services may involve the performance by a federal entity of an agreed task over a specified period of time.
5. Sale of goods includes goods produced by a federal entity for the purpose of sale and goods purchased for resale, such as merchandise or other property held for resale.



6. A federal entity may enable other parties to use its assets, for example, through investment or bank deposits. Therefore, the use by any other entity of a federal entity's assets gives rise to revenue in the form of:
 - A. Interest - charges for the use of cash or cash equivalents and amounts due to the federal entity;
 - B. Royalties - charges for the use of long-term assets of the federal entity;
 - C. Dividends - distributions of surpluses to holders of equity investment in proportion to their holdings of capital.



7. In distinguishing between revenue from exchange and non-exchange transactions, substance rather than the form of the transaction should be considered. Examples of non-exchange transactions include revenue from taxes, contributions from local governments, custom duties, fines, grants and donations.

Recognition of Revenue from Exchange Transactions



8. A primary issue in the treatment of revenue on accrual basis is determining when to recognize revenue. Revenue is recognized when the following conditions are met:
- A. It is probable that economic benefits (such as receiving cash from clients for services rendered or goods sold) or service potential will flow;
 - B. Revenue can be measured reliably.

Collecting Revenue as an Agent:

9. A federal entity shall check the substance of a transaction, rather than only its form. Revenue from exchange transactions shall include only the gross inflows of economic benefits to the federal entity. Therefore, the amounts collected by the entity as agent of another federal entity or another government organization or on behalf of other third parties, shall not be regarded as revenue from an exchange transaction of that entity. However, the federal entity may recognize revenue arising from any commission received or receivable for the collection.

Example 9.1 - Collecting Revenue as an Agent



A Ministry "the Ministry" provides administrative services, but the related amounts are first collected by another federal entity which transfers collected amounts to the Ministry on a monthly basis (AED 10,000 have been collected). The Ministry in turn transfers these amounts to the Ministry of Finance on the same day.

Accordingly, each entity makes the following entries:

- A. **The collecting federal entity, agent:** Records (monetary) assets when collected, and does not record a revenue, but rather a related party payable balance, pending the transfer of collected amounts to the Ministry.

When cash is collected:

Description	Debit	Credit
Cash / Bank Account	10,000	
Related Parties (Ministry)		10,000

When cash is transferred to the Ministry:

Description	Debit	Credit
Related Parties (Ministry)	10,000	
Cash / Bank Account		10,000

- B. **The Ministry:** The Ministry records a revenue when accrued, and a related party payable balance pending collection.

When service is rendered:

Description	Debit	Credit

Example 9.1 - Collecting Revenue as an Agent

Related Parties (The collecting federal entity)	10,000	
Revenue from an Exchange Transaction		10,000
<i>When cash is received from the agent:</i>		
Description	Debit	Credit
Cash	10,000	
Related Parties (The collecting federal entity)		10,000

C. **The Ministry of Finance:** Does not record any revenue.

Inflows from Loans and Similar Financing:

10. Financing inflows, particularly borrowings, do not meet the definition of revenue because they result in an equal change in both assets and liabilities and have no impact upon net assets/equity. Financing inflows shall be taken directly to the statement of financial position and added to the balances of assets and liabilities.

Uncertainty about the Collectability of Recognized Revenue

11. A federal entity shall recognize revenue from exchange transactions only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. If the entity is uncertain about the collectability of an amount already included in revenue, the uncollectable amount shall be recognized as an expense, rather than as an adjustment of the revenue originally recognized.

**Example 9.2 - Uncertainty about the Collectability of Recognized Revenue**

In December, a federal entity sold goods for a value of AED 100,000 to a private company. This amount is to be collected on January 15.

Accordingly, the federal entity made the following entry when the goods were sold in December.

Description	Debit	Credit
Receivables	100,000	
Revenue from an Exchange Transaction		100,000

On December 31, when preparing its financial statements, the federal entity was notified that the private company has incurred severe financial losses and is going to be liquidated. Consequently, the collection of the amount receivable from the company became improbable. Accordingly, the Ministry does not reduce the previously recognized revenue, but need to recognize an expense arising from this event.

Description	Debit	Credit
Impairment of Receivables - Expense	100,000	
Allowance for doubtful accounts		100,000

Identification of the Transaction

12. The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the price of a product includes an identifiable amount for subsequent servicing, that amount is deferred, and recognized as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole. For example, an entity

may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Measurement of Revenue from Exchange Transactions



13. Revenue shall be measured at the fair value of the consideration received or receivable. The amount of revenue shall be determined by agreement between the federal entity and the other entity (the purchaser or user of the service or asset).
14. In some cases, an agreement may be made to defer the collection of due amounts by granting the purchaser payment facilities, which may result in a difference between the present value of receivable future payments and the nominal amount of cash received or receivable. Accordingly, the difference between the present value and nominal amount of the consideration shall be recognized as interest revenue.



Example 9.3 - Measurement of Revenue from Exchange Transactions

In February 2015, a federal entity sold some goods for the value of AED 50,000 to a private company, with the possibility of paying this due amount over two years under an interest-free credit granted by the federal entity.

Accordingly, the federal entity needs to determine the present value of the receivable future amount using a particular interest rate determined based on current market rate for a similar transaction (for example, 8%).

The present value of the consideration receivable in February 2017	AED 42,867
The nominal amount of the consideration receivable in February 2017	AED 50,000
The difference to be recognized as interest revenue *	AED 7,133
*Calculated using the present value formula $(50,000 / 1.08^2)$	

15. When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange shall not be regarded as a transaction which generates revenue, and shall not be recognized.
16. When goods or services are exchanged for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents paid or collected, and the goods or services exchanged shall be recognized in expenses. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash paid or collected, if any.



Example 9.4 - Exchanging Services for Dissimilar Services

During the current year, the Ministry of Culture and Youth organized a huge party and provided attendants with transportation. For this purpose, this Ministry agreed with another federal

Example 9.4 - Exchanging Services for Dissimilar Services

entity to provide buses in exchange for a set of tickets to be provided by the Ministry of Culture to the federal entity in question. The value of these tickets is AED 10,000 representing the fair value for the lease of buses during the day of the party.

This transaction is an exchange of dissimilar services. Accordingly, each party should record the revenue and expense relating to the transaction as follows:

The Ministry of Culture and Youth

Recording revenue from tickets

Description	Debit	Credit
Receivables - Related Parties	10,000	
Revenue from an Exchange Transaction		10,000

Recording the expense relating to the lease of buses

Description	Debit	Credit
Expenses - Lease of Buses	10,000	
Payables - Related Parties		10,000

Note: The federal entity makes the same entries by recording revenue from the lease of buses and an expense relating to received tickets.

Rendering of Services and Fees**Recognition of Revenue from the Rendering of Services and Fees**

17. Revenue from services and fees arise when a federal entity provides services during the current period or a period exceeding 12 months. Services and fees of a federal entity include:
- A. Licenses, documents, certificates and permits issuance fees;
 - B. Test fees;
 - C. Documents authentication fees;
 - D. Advertising and publishing;
 - E. Lease of land and buildings.

**Example 9.5 - Recognition of Revenue from the Rendering of Services and Fees - Lease**

Income from the lease of buildings is recognized when it accrues in accordance with lease terms.

On January 1, a federal entity signed a two-year lease for a total value of AED 200,000 which was paid by the second party upon signing the contract.

Accordingly, the following is presented in the federal entity's financial statements:

Example 9.5 - Recognition of Revenue from the Rendering of Services and Fees - Lease

- ✓ Revenue for the current year (2015) for the value of AED 100,000;
- ✓ Deferred revenue (previously collected amount - liability) for the value of AED 100,000. This liability will be converted to revenue when it accrues in the subsequent year.



18. When a federal entity can reliably estimate the outcome of a transaction involving the rendering of services, revenue shall be recognized by reference to the percentage of completion or transaction completion at the reporting date. The outcome of a transaction can be estimated reliably when the following conditions are satisfied:
- A. The amount of revenue can be measured reliably;
 - B. It is probable that the economic benefits or service potential associated with the transaction will flow to the federal entity;
 - C. The stage of completion or transaction completion at the reporting date can be measured reliably;
 - D. The costs to complete or transaction completion can be measured reliably.
19. A federal entity is generally able to reliably estimate the conditions prescribed in paragraph 19 after it has agreed to the following with the other parties to the transaction:
- A. Each party's enforceable rights represented by the agreement between the parties regarding the service to be provided and the consideration to be paid;
 - B. The consideration to be exchanged;
 - C. The manner and terms of settlement.
20. When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized at the amount of recognized recoverable expenses. When it becomes unlikely to recover the costs incurred and previously recognized as revenue (due amounts), such amounts shall be recognized as an expense.

Measurement

21. Revenue from services shall be measured at the fair value of resources received or receivable. This is normally done under the percentage of completion method.

Percentage of Completion Method

22. Revenue associated with the percentage of completion shall be measured by monitoring progress in the completion of the service and recognizing revenue in periods during which services are rendered.
23. The percentage of completion of a service can be measured using the following methods:
- A. Review or assessment of work performed;

- B. Services performed by the end of the fiscal year as a percentage compared to total services to be performed;
- C. The proportion of costs incurred by the end of the fiscal year to the estimated total costs of performing the service.



Example 9.6 - Recognition of Revenue from the Rendering of Services Using the Stage of Completion Method

The Ministry of Health signed a contract with a private establishment involving the provision of testing and inspection service for 10 infirmaries of the establishment, in addition to issuing a certificate of quality for each of them. The contract commenced on September 1, 2015 and its total value was AED 600,000 to be collected when the certificates are issued. The duration of tests and inspection was estimated to be 6 months.

At the end of the fiscal year, the work progress report showed that the Ministry has completed the testing and inspection of 7 infirmaries. Accordingly, the following entry was made:

Description	Debit	Credit
Receivables *	420,000	
Revenue		420,000

*Calculated as follows: $(600,000/10) \times 7$

24. When services are rendered within a specified time frame, revenue shall be recognized on a straight line basis, unless another method is required to recognize revenue more reliably. When a specific significant act within a specified time is required to recognize revenue from the rendering of services, revenue shall be recognized when that significant act is executed.

Sale of Goods

Recognition of Revenue from the Sale of goods



25. Revenue from the sale of goods shall be recognized when all the following conditions are satisfied:
- A. The federal entity has substantially transferred to the purchaser the risks and rewards of ownership of the goods;
 - B. The federal entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - C. The amount of revenue can be measured reliably;
 - D. It is probable that the economic benefits or service potential associated with the transaction will flow to the federal entity;



- E. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Example 9.7 - Recognition of Revenue from the Sale of Goods (Various Examples of Sale of Goods)

- **Installation and inspection of equipment**

Revenue is normally recognized when the purchaser accepts delivery installation and/or when inspection is complete. However, revenue is recognized immediately upon the purchaser's acceptance of delivery when:

- A. The installation process is simple in nature; or
- B. The inspection is performed only for purposes of final determination of contract prices.

- **Sales to intermediaries, such as distributors, dealers or others for resale**

Revenue from such sales is generally recognized when the risks and rewards of ownership are transferred. However, when the purchaser acts primarily as an agent, the sale is treated as a consignment sale. Please see below example 9.8.

- **Real estate sales**

Sale of real estate and property is recognized as revenue from exchange transactions when legal title passes to the purchaser.



26. It is important that federal entities assess when the significant risks and rewards of ownership are transferred to the purchaser because this requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title. However, in certain other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title. Please, see the examples below.
27. If a federal entity retains significant risks and rewards of ownership, the transaction shall not be regarded as a sale and revenue shall not be recognized. However, in some other cases the risks and rewards are transferred at a different time than the legal ownership transfer. Examples of such cases include:
- A. When the receipt of the revenue from a sale transaction is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example, where a government publishing operation distributes educational material to schools on a sale or return basis);
 - B. When the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the federal entity;
 - C. When the purchaser has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.



Example 9.8 - Recognition of Revenue from the Sale of Goods (Various examples of Sale of Goods)

The Ministry of Education distributes some books and references in the United Arab Emirates University for sale to students. When the university sell these books, it transfers the amounts collected to the Ministry after deducting a 2% commission. The university also has the right to return any unsold materials to the Ministry of Education.

In 2015, the Ministry distributed books and references for the value of AED 200,000 to the university at the beginning of the period. By the end of the period, the university's sale reports showed that AED 180,000 worth of books and references were sold by the university and, accordingly, the university returned the remaining books for the value of which was AED 20,000.

Based on these facts, during 2015, the university will recognize revenue from commissions only for the amount of AED 3,600 ($180,000 \times 2\%$).

Whereas the Ministry of Education will recognize revenue from the sale of books for the amount of AED 180,000, in addition to recognizing an expense of AED 3,600 to cover the commission to be paid to the university.

Measurement

28. Revenue from the sale of goods shall be measured at the fair value of resources received or receivable.

**Example 9.9 - Recognition and Measurement of Revenue from the Sale of Goods**

A federal entity sold scrap for the value of AED 15,000 to a third party.

Revenue from the sale of scrap should be recognized when this scrap is delivered to the third party as the federal entity can measure the revenue (AED 15,000). The risks and rewards of ownership have been substantially transferred to the purchaser and the federal entity has fulfilled all the requirements of the sale.

A receivable for the amount of revenue shall also be recognized, pending to the receipt of cash from the third party:

Description	Debit	Credit
Receivables - Third Party	15,000	
Revenue from an Exchange Transaction		15,000

When cash is received:

Description	Debit	Credit
Cash - Bank Account	15,000	
Receivables - Third Party		15,000

Interest, Royalties and Dividends**Recognition**

29. Revenue arising from the use by others of a federal entity's assets yielding interest, royalties and dividends shall be recognized using the accounting bases set out in this part when:

- A. It is probable that the economic benefits or service potential associated with the transaction will flow to the federal entity;
- B. The amount of the revenue can be measured reliably.

Recognition of Interest	Recognition of Royalties	Recognition of Dividends
Interest shall be recognized on a time proportion basis that takes into account the effective yield on the financial asset. This includes, for example, interest received on bank deposits, interest on investments and other interest.	Royalties (such as royalties from telecommunication companies) shall be recognized in accordance with the substance of the relevant agreement;	Dividends or similar distributions shall be recognized when the federal entity's right to receive payment is established. The federal entity's right is established when distributions are announced and approved by the board of directors. Receivables and revenue from dividends may not be recognized if they are not announced and approved prior to the reporting date.

30. When unpaid interest has accrued before the acquisition of an interest-bearing financial asset (investment), the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognized as revenue. When dividends or similar distributions are declared from pre-acquisition net surplus, those dividends or similar distributions are deducted from the cost of the financial asset. If it is difficult to make such an allocation except on an arbitrary basis; dividends or similar distributions are recognized as revenue unless they clearly represent a recovery of part of the cost of the financial asset.

Measurement



31. Revenue from interest, royalties and dividends shall be measured at the fair value of the consideration received or receivable.

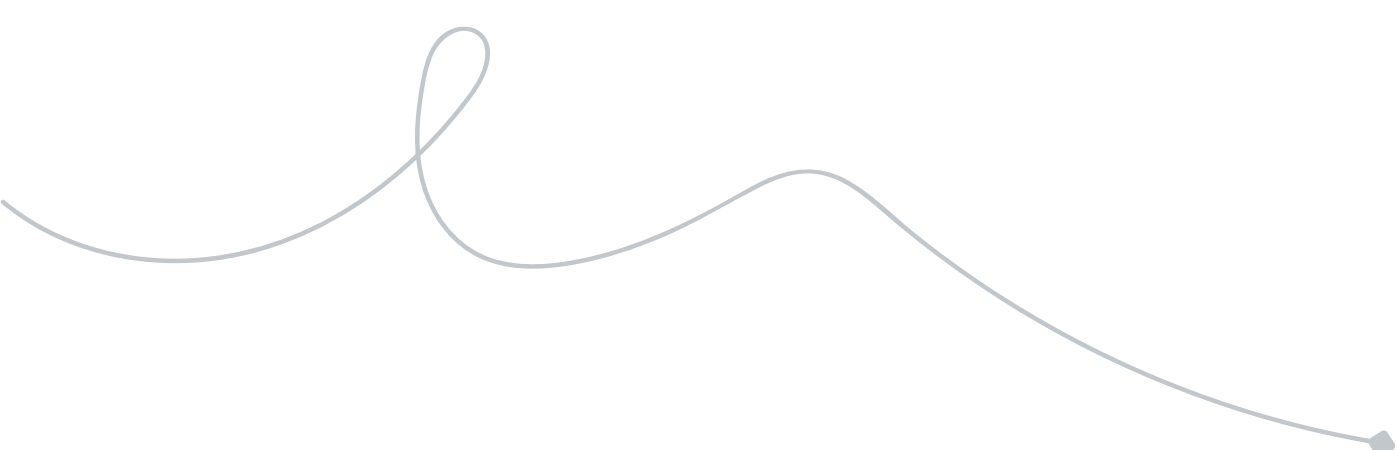
Measurement of Interest	Measurement of Royalties	Measurement of Dividends
Interest shall be measured using the effective interest rate (please, see FGAAS 41 "Financial Instruments" for more details on the effective interest rate).	Revenue from royalties shall be measured based on the fair value of the consideration received or receivable when revenue accrues in accordance with the terms of the agreement.	Revenue from dividends and similar distributions shall be measured using the fair value of the consideration received or receivable when revenue accrues.

Disclosures



32. A federal entity shall present its revenue from the sale of goods and rendering of services and revenue from interest, royalties and dividends in the statement of financial performance.
33. A federal entity shall disclose the following in its financial statements:

- A. The accounting policies adopted for the recognition of revenue including the methods adopted to determine the percentage of completion of transactions involving the rendering of services;
- B. The amount of each primary category of revenue recognized during the period including revenue arising from:
 - ✓ The rendering of services;
 - ✓ The sale of goods;
 - ✓ Interest;
 - ✓ Royalties;
 - ✓ Dividends or their equivalents.
- C. The amount of revenue arising from exchanges of goods or services included in each primary category of revenue.



Standard 23 - Revenue from Non- exchange Transactions

Standard 23 - Revenue from Non-exchange Transactions

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 23 (IPSAS 23) which deals with revenue from non-exchange transactions. It is worth mentioning that some text of standard 23 has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to define revenue from non-exchange transactions and the related accounting treatment by prescribing the requirements relating to the recognition of revenue from such transactions and their measurement bases.
2. This Standard primarily addresses the following topics:
 - A. Identifying transactions that generate revenue from non-exchange transactions;
 - B. The key factors to be considered when recognizing revenue from non-exchange transactions;
 - C. The method of measurement of revenue from non-exchange transactions;
 - D. Significant non-exchange transactions that may take place in a federal entity;
 - E. The key information to be disclosed in financial statements.

Scope



3. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in the introduction thereto.
4. This Standard does not apply to a business combination that is a non-exchange transaction.
5. This Standard deals with revenue from non-exchange transactions which may include, but are not limited to:
 - A. Taxes;
 - B. Transfers:
 - ✓ Contributions in-cash and in-kind;
 - ✓ Fines;
 - ✓ Gifts and donations.

Identifying Non-exchange Transactions



6. In some transactions, a federal entity receives resources and provides no or nominal consideration in return, such as taxes, as revenue from taxes shall be regarded as revenue from non-exchange transactions. A federal entity shall recognize revenue from taxes when the events that are subject to tax take place and asset recognition requirements are met.



Example 23.1 - Non-exchange Transactions

A federal entity collected its share in tobacco tax for May and the Government of Ras Al Khaimah transferred the relevant amount after reviewing the monthly tax report. The amount collected is revenue from a non-exchange transaction since the federal entity has not provided any direct service in exchange of the income tax received.

7. The substance and terms of a transaction should be examined to determine if it is an exchange or a non-exchange transaction. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction may fall within the definition of a non-exchange transaction. To determine whether the substance of a transaction is that of an exchange or a non-exchange transaction, professional judgment shall be exercised.
8. Non-exchange transactions also arise if a federal entity provides a particular consideration in return for the resources received but that consideration does not approximate the fair value of the resources received. In these cases, the federal entity shall determine whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately by recognizing the exchange component in accordance with the principles and requirements of FGAAS 9 "Revenue from Exchange Transactions" and recognizing the non-exchange component in accordance with the principles and requirements of this Standard. When determining whether a transaction comprises identifiable exchange and non-exchange components, professional judgment shall be exercised.
9. Where it is not possible to distinguish exchange and non-exchange components of a particular transaction, the transaction shall be treated as a non-exchange transaction.

Example 23.2 - Combination of an Exchange and a Non-exchange transactions

A federal ministry transferred a bus to the Emirates Red Crescent in return for AED 50,000, although the fair value of the transferred bus is AED 250,000.

Based on Federal Government Accrual Accounting Standards, the received asset shall be recognized by the federal entity at its fair value provided that a revenue from a non-exchange transaction is recognized representing the resulting difference between the fair value of the received asset and the consideration transferred in return.

Accordingly, the federal entity records this transactions as follows:

Description	Debit	Credit
Fixed Asset - Bus	250,000	
Cash - Bank Account		50,000
Revenue from a Non-exchange Transaction		200,000

10. Revenue from non-exchange transactions may include other types, such as gifts, fines and other fees, which shall be recognized when it is probable that future economic benefits or service potential associated with the asset will flow to the federal entity and the fair value of such benefits can be measured reliably.

Taxes



11. Taxes meet the definition of “Non-exchange Transaction” because the taxpayer transfers resources to the government, without receiving approximately equal value directly in exchange. Whilst the taxpayer may benefit from a range of social services established by the government, these services are not provided in exchange for the collection of taxes.

Recognition of Revenue from Taxes



12. The government shall recognize revenue from taxes and the resulting assets when taxable events occur and asset recognition criteria are satisfied.



13. Revenue shall be recognized when the resources arising from taxes meet the definition of an asset, in which case a federal entity shall recognize these resources as an asset when the following conditions are met:
- A. The federal entity controls the resources as a result of a taxable event;
 - C. The federal entity expects to receive expected future economic benefits or service potential from these resources;
 - D. The federal entity can reliably measure the fair value of inflowing resources.

Taxable events



14. A federal entity shall recognize an asset in respect of taxes when a taxable event occurs and asset recognition criteria are met. A taxable event arises when the conditions for paying tax or conducting a transaction that leads to payment of taxes by the taxpayer who conducted the transaction. Common examples of taxable events include:
- A. **Income tax:** The earning of assessable income during the taxation period by the taxpayer;
 - B. **Value added tax:** The undertaking of taxable activity during the taxation period by the taxpayer;
 - C. **Goods and services tax:** The purchase or sale of taxable goods and services during the taxation period;
 - D. **Customs duty:** The movement of goods or services that are subject to import duty across the customs boundary (e. g. tobacco tax).



Example 23.3 - Recognition of Assets and Revenue from Taxes

A federal entity receives tobacco tax after its collection by local governments based on customs reports received and amounts collected by customs authorities responsible for monitoring tobacco shipments.

Accordingly, the federal entity follows up on monthly reports issued by customs authorities and assesses the amounts collectable from local governments. (For example, the amounts for June are AED 250,000).

Therefore, the federal government notifies the local government of the amount due and makes the following entry:

Description	Debit	Credit
Asset: Receivables - Local Governments	250,000	
Revenue from Non-exchange Transactions - Taxes		250,000

Advance Receipts of Taxes

15. A federal entity shall recognize the resources for taxes received prior to the occurrence of the taxable event as an asset and a liability (advance receipts) because the event that gives rise to the entity's entitlement to the taxes has not occurred and the criteria for recognition of taxation revenue have not been satisfied, notwithstanding that the entity has already received an inflow of resources.
16. Advance receipts in respect of taxes, if any, are not fundamentally different from other advance receipts. Therefore, a liability shall be recognized until the taxable event occurs. When the taxable event occurs, the liability shall be discharged and revenue shall be recognized.

Measurement of Revenue from Taxes



17. A federal entity shall measure assets arising from taxation transactions at their fair value as at the date of accrual. Assets arising from taxation transactions shall be measured at the best estimate of the inflow of resources to the federal entity.

18. Where there is a difference between the timing of the taxable event and the timing of taxes being collected, federal entities shall reliably measure assets arising from taxation transactions by using estimates, for example, that had been developed when a particular tax was collected in prior or similar periods. Estimates shall also take the following factors into account:
- A. The timing of cash receipts and tax returns from taxpayers;
 - B. The tax law allowing taxpayers a longer period to file tax returns than that granted to the government for publishing financial statements;
 - C. Taxpayers failing to file tax returns on a timely basis;
 - D. Valuing non-monetary assets for tax assessment purposes;
 - E. Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;



Example 23.4 - Measurement of Assets and Revenue from Taxes

The revenue department received the customs reports for June. Based on those reports, the revenue department determined the amount transferable by the Government of Sharjah to the federal government with respect to revenue from tobacco tax for June. The amount due was estimated at AED 250,000.

Accordingly, the federal entity will notify the Government of Sharjah of the amount due and make the following entry:

Description	Debit	Credit
Receivables - Local Governments	250,000	
Revenue from Non-exchange Transactions - Taxes		250,000

19. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods. In such cases, adjustments to previous estimates shall be made and differences shall be recognized in accordance with FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors."

Expenses Paid Through the Tax System and Tax Expenditures

20. A federal entity shall determine taxation revenue at a gross amount. It shall not be reduced for expenses paid through the tax system. Taxation revenue shall not be grossed up for the amount of tax expenditures.

Transfers

Definition of Transfers

21. Transfers meet the definition of “Non-exchange Transactions” because the transferor federal entity provides cash and assets to the recipient federal entity without the recipient federal entity providing approximately equal value in exchange. If an agreement stipulates that the recipient federal entity is to provide approximately equal value in exchange, the agreement shall become a contract for an exchange transaction that should be accounted for under FGAAS 9 “Revenue from Exchange Transactions”.



22. A federal entity shall recognize an asset arising from a transfer when the transferred resources meet the definition of an asset and satisfy the relevant recognition criteria. A transferred asset may be in any of the following forms, without limitation:
- A. Contributions from local governments (cash transfer);
 - B. Contributions in-kind from local governments, which may include the delivery of services, goods and fixed asset at no charge;
 - C. Other transfers (discussed in more detail in paragraphs 48 to 70 of this Standard).



23. Transferred resources meet the definition of an asset when the federal entity controls the resources as a result of a past event (transfer) and expects to receive future economic benefits or service potential from those resources. A transfer meets the criteria for recognition as an asset when the conditions prescribed in paragraphs 25 and 26 of this Standard are met.
24. A federal entity obtains control of transferred resources when the resources are actually transferred to the relevant entity or when the relevant entity has an enforceable claim against the transferor entity.
25. Transfers that meet the definition of “Contributions from Owners” shall not result in the recognition of revenue. A transaction shall be regarded as contributions from owners if any of the following two conditions is met:
- A. When the transfer agreement states that the federal entity transferring resources is entitled to distributions of expected future economic benefits or service potential during the recipient entity’s life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up;
 - B. When the transfer agreement states that that the federal entity providing resources acquires a financial interest in the recipient entity that can be sold,

exchanged, transferred or redeemed. In these cases, the agreements shall be regarded, in substance, agreements to make contributions from owners.

Recording Transferred Assets

Recognition of Transferred Assets



26. The general principles of FGAAS 1 "Presentation of Financial Statements" define assets as resources controlled by a federal entity as a result of past events and are expected to generate future economic benefits or service potential to a federal entity.



27. A federal entity shall recognize the inflow of resources from a non-exchange transaction as an asset when it meets the following conditions:

- A. It is probable that future economic benefits or service potential associated with the asset will flow to the federal entity;
- B. The fair value of the asset can be measured reliably.

Control of an Asset

28. Control of an asset arises when a federal entity has the ability to exclude or regulate the access of others to the benefits of the asset.

29. An announcement of an intention to transfer resources to a federal entity shall not be sufficient for this entity to control the transferred resources, as control of a transferred asset requires a binding transfer agreement. If the federal entity does not have an enforceable claim to the resources to be transferred, it cannot control the asset and force the transferor entity to transfer those resources.

Past Events

30. A past event which gives rise to control of an asset may be the result of a purchase, a taxable or a transfer. Accordingly, transactions or events expected to occur in the future shall not result in the recognition of assets, unless there is an enforceable claim to the resources to be transferred.

Flow of Future Economic Benefits or Service Potential



31. An inflow of resources is probable when the inflow is more likely than not to occur.

32. A federal entity shall determine the probability of transfer of resources based on its past experience with similar transfers and its expectations regarding the transferor entity. For example, a transfer of resources is probable, even if the resources are not actually transferred to the relevant entity at the reporting date, when the following conditions are met:

- A. The transferor entity announces its intention to transfer the resources to the relevant federal entity;
- B. The agreement is binding;

- C. Based on past experience, the transferor federal entity usually transfers the agreed resources.

Measurement of Transferred Assets



- 33. An asset acquired through a non-exchange transaction shall be measured at its fair value as at the date of acquisition; i.e. the date of its transfer to the recipient entity.

Recording Revenue from Transfers

Recognition of Revenue from Non-exchange Transactions



- 34. A federal entity shall recognize an inflow of resources from a non-exchange transaction as an asset which shall be recorded as revenue from non-exchange transactions, unless a liability is required to be recognized in respect of the same inflow.



- 35. When a federal entity satisfies the conditions of a liability recognized as revenue in respect of an inflow of resources from a non-exchange transaction, the federal entity shall reduce the carrying amount of the liability recognized and recognize an amount of revenue from non-exchange transactions equal to that reduction.
- 36. If an inflow of resources satisfies the definition of contributions from owners, it shall not be recognized as a liability or revenue.
- 37. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition states that the federal entity is to provide a specific service or return unused transferred funds to the transferor federal entity, revenue shall be recognized only when that specific service is provided.

Measurement of Revenue from Non-exchange Transactions



- 38. A federal entity shall measure revenue from non-exchange transactions based on the amount of the increase in net assets recognized.
- 39. When a federal entity recognizes an asset arising from a non-exchange transaction, it shall also recognize revenue from a non-exchange transaction equal to the amount of the asset (fair value at the date of acquisition), unless it is also required to recognize a liability due to certain conditions regarding the use of the asset acquired. When a liability is subsequently reduced, because certain conditions are satisfied, the amount of the reduction in the liability shall be recognized as revenue.

Recording Liabilities Arising from Transfers

Recognition of Liabilities from Non-exchange Transactions



- 40. A federal entity shall recognize a liability in respect of a present contractual obligation arising from a non-exchange transaction when the following conditions are satisfied:
 - A. It is probable that the federal entity will provide expected future economic benefits or service potential to settle the contractual obligation;

B. A reliable estimate can be made of the amount of the contractual obligation.



41. A present contractual obligation arises from stipulations that may be included in non-exchange transactions. It may also arise from the normal operating environment, such as the recognition of advance receipts.

Stipulations

42. Assets may be transferred to a federal entity under stipulations prescribing the manner in which an asset may be used or disposed of.
43. Stipulations require a federal entity to which an asset is transferred to use or consume expected future economic benefits or service potential embedded in the asset for a specific (due) purpose at initial recognition.
44. Stipulations that are not provided for in laws, regulation or binding arrangements or agreements shall not be enforceable.



45. Stipulations relating to a transferred asset may be either conditions or restrictions.

Conditions on Transferred Assets	Restrictions on Transferred Assets
Conditions on transferred assets require a federal entity to: A. Either consume the future economic benefits or service potential embedded in an asset for a particular purpose; or B. Return the future economic benefits or service potential to the transferor federal entity in the event the conditions are breached. Accordingly, the recipient federal entity shall initially recognize the asset and, simultaneously recognize a present contractual obligation arising from the conditions imposed on the asset. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned by the recipient from other assets due to be transferred by the transferor for other purposes.	Restrictions on transferred assets do not include a requirement that the transferred asset, or other future economic benefits or service potential is to be returned to the transferor federal entity if the asset is not used as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a requirement to recognize a present contractual obligation. However, when the recipient federal entity is in breach of a restriction, a penalty may be imposed on the recipient entity by, for example: A. Filing a lawsuit with a court or another tribunal; B. An administrative process, such as a directive from a minister in the federal entity or other authority. Such actions may result in the federal entity being directed to fulfil the restriction or face a civil or criminal penalty for defying the court, other tribunal or authority.

Example 23.5 - Conditions on the Transfer of an Asset

The National Council for Tourism and Antiquities concluded an agreement with an international entity enabling the Council to receive funding for the amount of AED 300,000 to organize a cultural event addressing a particular topic in a museum in the UAE during the current fiscal year, or return the funds to the funding entity after 3 months of the end of the year if the transferred funds are not used for the specified purpose.

Accordingly, the Council recognizes the asset (cash) when the grant is received and a corresponding liability until the transferred resources are used in organizing the specified event.

46. When determining whether a stipulation is a condition or a restriction it is necessary to consider the substance of the terms of the stipulation and not merely its form. The following situations are examples of favoring substance over form:
- A. In determining whether a stipulation is a condition or restriction, the federal entity shall consider whether a requirement to return the asset or other future economic benefits or service potential is enforceable and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential and the unenforceability of the conditions is established, the transferred asset shall not be regarded as a liability of the recipient and the stipulation shall be regarded as a restriction.
 - B. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient federal entity may conclude that the stipulation has the form of a condition but the substance of a restriction, and is, therefore, a restriction.
 - C. If the recipient federal entity has no experience with the transferor, which renders it unable to determine that the transferor will not invoke the terms relating to the recovery of assets, and it has no evidence to the contrary, the recipient entity shall assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.

Measurement of Liabilities from Non-exchange Transactions

- 47. A federal entity shall measure a liability arising from a non-exchange transaction based on the best estimate of the amount required to settle the present obligation at the reporting date.
- 48. When a liability is recognized for an extended period of time, this may affect the time value of money and render it material. Accordingly, a liability shall be measured at the present value of the amounts expected to be paid in the future. This present value shall be determined by reference to FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets".



Example 23.6 - Recognition and Measurement of an Asset, a Liability and Revenue from a Non-exchange Transaction

At the beginning of the current year, a federal entity received a conditional grant of AED 2 million from the Government of Abu Dhabi to purchase special equipment for persons with special needs, provided that the grant shall be returned if not used for the specified purpose before the end of the current fiscal year.

Accordingly, the federal entity records the amount received as follows:

Description	Debit	Credit
Cash - Bank Account	2,000,000	
Liability / Deferred Revenue		2,000,000

When the amount is spent on purchasing the special equipment and the primary condition is satisfied, the federal entity reduces the liability by the amount paid for the equipment. For the purposes of this example, it was assumed that the federal entity has spent AED 900,000 to purchase the equipment.

Accordingly, the federal entity makes the following entries:

Description	Debit	Credit
Asset: Equipment	900,000	
Cash - Bank Account		900,000
Description	Debit	Credit
Liability / Deferred Revenue	900,000	
Revenue from a Non-exchange Transaction		900,000

Other Transfers

Debt Forgiveness and Assumption of Liabilities



49. Revenue from debt forgiveness arises when stakeholders (lenders or creditors) waive their right to collect a debt owed by a federal entity, effectively cancelling the liability.
50. If debt forgiveness meets the definition of contributions from owner, a federal entity shall recognize an increase in net assets, rather than revenue from a non-exchange transaction. Please, refer to paragraph 25 of this Standard for more details on transactions that meet the definition of contributions from owners.



51. Revenue arising from debt forgiveness shall be measured at the fair value of the debt in question. The carrying amount of revenue is usually the amount of the debt forgiven.



Example 23.7 - Debt Forgiveness

The Central Bank of the United Arab Emirates relieved a federal entity from the requirement to repay the outstanding loan balance. At the date of the relief decision, the carrying amount of the loan was AED 1.5 million.

The Central Bank confirmed the balance in the federal entity's books and the relief decision by an official letter addressed to the Minister of Finance.

Accordingly, the federal entity records the transaction as follows:

Description	Debit	Credit
Liability: Loan from the Central Bank	1,500,000	
Revenue from a Non-exchange Transaction		1,500,000

Fines



52. Fines are economic benefits or service potential received or receivable by a federal entity, as determined by a court or other law enforcement body, as a consequence of an individual or entity breaching laws or regulations. Accordingly, fines shall be recognized when they accrue as revenue and receivables if the receivable amount meets the definition of an asset and satisfies asset recognition criteria as prescribed in paragraph 26 of this Standard.
53. Fines normally require an individual or entity to transfer a fixed amount of cash to the federal entity and do not impose on the government any contractual obligations which need to be recognized as a liability.
54. When a federal entity collects fines in the capacity of an agent, fines shall not be revenue of the collecting entity. Instead, the amounts collected shall be recognized as a liability until they are transferred to the federal entity authorized to recognize the revenue.



55. Revenue and receivables arising from fines shall be measured at the best estimate of the inflow of resources to the federal entity.



56. To recognize revenue and receivables from fines, a federal entity shall verify the satisfaction of the following conditions:
- A. The federal entity collects the amounts in its capacity as the entity authorized to collect and follow up on the amounts, rather than as an agent;
 - B. The breach is caused by a past event;
 - C. It is probable that future economic benefits or service potential associated with the asset will flow to the federal entity;
 - D. The amount of revenue and receivables can be estimated reliably.



Example 23.8 - Fines

The Ministry of Health issued a fine for a federal health center due to non-compliance with the regulations of the Ministry. The fine was issued on December 15, 2015 for the amount of AED 20,000.

December 31 is the Ministry's fiscal year closing and reporting date.

Accordingly, the Ministry of Health records the transaction as follows:

Description	Debit	Credit
Receivables - Fines	20,000	
Revenue from a Non-exchange Transaction		20,000

Bequests

57. A transfer from a bequest is a transfer of assets made according to the provisions of a deceased person's will that provides for the transfer of assets to a federal entity.



58. Assets and revenue from bequests shall be recognized when the following conditions are satisfied:

- A. It is probable that the future economic benefits or service potential will flow to the federal entity;
- B. The fair value of the assets can be measured reliably;
- C. If a will is disputed, this may affect the probability of the flow of assets to the federal entity.



59. The fair value of assets transferred from bequests shall be determined at their fair value at the date of acquisition which can be ascertained by reference to an active market or by appraisal. An appraisal shall be undertaken by a member of the valuation profession who holds a recognized professional qualification. For many assets, the fair value can be readily ascertainable by reference to quoted prices in an active market. For example, current market prices can usually be obtained for land and non-specialized buildings.

Gifts and Donations



60. Gifts and donations are voluntary transfers of assets to the federal government by other parties (this may include a government entity, an international entity, an establishment or an individual). Gifts and donations may include:

- A. Cash and other monetary assets;
- B. Goods in-kind;
- C. Assets (as part of property, plant and equipment).



61. A past event that results in the control of transferred resources is a receipt of a gift or donation, and is normally free from stipulations. Assets and revenue relating to gifts and donations shall be recognized when the following conditions are satisfied:

- A. It is probable that the future economic benefits or service potential will flow to the federal entity;
- B. The fair value of the assets can be measured reliably.



62. The fair value of transferred assets from gifts and donation shall be determined at their fair value at the date of acquisition which can be ascertained by reference to an active market or by appraisal as prescribed in paragraph 58 of this Standard.



Example 23.9 - Unconditional Donation

On December 15, a private company donated 5 used cars to a federal entity without any conditions on their use. The federal entity started using the transferred cars as of February 10 after completing their registration procedures with the Roads and Transport Authority on January 20.

The federal entity assessed the value of the cars by reference to an active market after contacting three suppliers of the same brand of the transferred cars and requesting traded prices based on the same particulars. Suppliers' price quotes did not show any significant differences and the cars were valued at AED 250,000.

Accordingly, the federal entity records the transaction as follows:

The federal entity should recognize the assets and revenue when acquired as a result of asset transfer, that is on December 15 (The existence of a binding agreement on December 15 needs to be ascertained, otherwise the assets shall be recognized when the cars are legally acquired, on January 20).

Description	Debit	Credit
Property, Plant and Equipment - Cars	250,000	
Revenue from a Non-exchange Transaction - Donations		250,000

Services In-kind



63. Services in-kind include services provided by other parties, such as a government entity, an international entity, an establishment or an individual. These services may include, without limitation:
 - A. Technical assistance from other governments or international organizations;
 - B. Public hospitals may receive the services of volunteers;
 - C. Government schools may receive voluntary services from parents as assistant teachers or members of the board of directors.
64. The federal government shall not recognize services in-kind as assets and revenue from non-exchange transactions, particularly due to the inability to ascertain that the federal entity has gained control of the services and to measure their fair value.
65. However, a federal entity shall make the disclosures relating to services in-kind in the following cases:
 - A. If the value of these services is material;
 - B. If the services provided by volunteers are not material in amount, but may be material by nature.

Pledges



66. Pledges do not meet the definition of an asset because the recipient federal entity is unable to control the access to the future economic benefits or service potential embedded in the asset pledged.
67. If a pledged asset is subsequently transferred to the recipient federal entity, it shall be recognized as a gift or donation in accordance with paragraphs 60, 61 and 62.
68. Pledges shall be disclosed as contingent assets in accordance with the requirements of FGAAS 19 "Provisions, Contingent Liabilities and Contingent Assets".

Concessionary Loans

69. Concessionary loans are loans received by a federal entity at interest rates that are below market rates. The payable portion of a loan and interest payments, if any, shall be regarded as an exchange transaction and shall be accounted for in accordance with FGAAS 41 "Financial Instruments", whereas the difference between interest calculated based on the interest rate applicable to the loan and the interest rate quoted in the market for similar loans shall be treated as revenue from a non-exchange transaction that should be accounted for in accordance with this Standard.



70. A federal entity shall determine the difference between interests calculated based on the interest rate applicable to the loan and the interest rate quoted in the market for similar loans at initial recognition of the loan. This difference shall be recognized as revenue from a non-exchange transaction, unless there is a present obligation.



71. The difference between interests calculated based on the interest rate applicable to the loan and the interest rate quoted in the market for similar loans shall be measured in accordance with FGAAS 41 "Financial Instruments".

Example 23.10 - Determining the Proportion of a Concessionary Loan to be Treated as Revenue from a Non-exchange Transaction

In the current year, the Ministry of Finance Received a concessionary loan of AED 500 million from the Central Bank of the United Arab Emirates for infrastructure development in a particular area within the next four years.

It was agreed to repay the loan over the next five years as follows:

Year 1	Nothing
Year 2	10%
Year 3	20%
Year 4	30%
Year 5	50%

Similar loans are currently traded in financial markets at an interest rate of 8%

Example 23.10 - Determining the Proportion of a Concessionary Loan to be Treated as Revenue from a Non-exchange Transaction

Based on this information, the Ministry of Finance records the transaction as follows:

3. Determining the difference between interest calculated based on the interest rate applicable to the loan and the interest rate quoted in the market for similar loans:

Under FGAAS 41 "Financial Instruments", the current fair value of future cash flows associated with the loan are calculated to be AED 368,621,282. Accordingly, the difference of AED 131,378,718 is regarded as revenue from a non-exchange transaction.

4. When the agreement is concluded: Initial recognition of cash received from the Central Bank, the loan and revenue relating to the non-exchange portion of the transaction:

Description	Debit	Credit
Cash - Bank	500,000,000	
Loan		368,621,282
Revenue from a Non-exchange Transaction		131,378,718

Example 23.11 - Determining the Proportion of a Conditional Concessionary Loan to be Treated as Revenue from a Non-exchange Transaction

The same inputs provided in Example 10 are used and the following assumptions are added: The concessionary loan granted by the Central Bank includes a condition relating to the manner in which the amount is to be used, as the federal entity should use the loan to build a university within the next four years or, otherwise, return the loan.

Progress reports relating to the university project show that work has progressed as follows:

Year 1	20% of the project completed
Year 2	65% of the project completed
Year 3	90% of the project completed
Year 4	100% of the project completed

Based on this information, the Ministry of Finance records the transaction as follows:

1. When the agreement is concluded: Initial recognition of cash received from the Central Bank, the loan and revenue relating to the non-exchange portion of the transaction:

Description	Debit	Credit
Cash - Bank	500,000,000	
Loan		368,621,282



Example 23.11 - Determining the Proportion of a Conditional Concessionary Loan to be Treated as Revenue from a Non-exchange Transaction

Liability Relating to Undisbursed Conditional Loan	131,378,718

2. At the end of the first year: Reducing the liability relating to the use of the loan for the specified purpose and recognizing revenue from a non-exchange transaction

Description	Debit	Credit
Liability Relating to Undisbursed Conditional Loan $131,378,718 \times 20\%$	26,275,744	
Revenue from a Non-exchange Transaction		26,275,744

3. At the end of the second year: Reducing the liability relating to the use of the loan for the specified purpose and recognizing revenue from a non-exchange transaction

Description	Debit	Credit
Liability Relating to Undisbursed conditional Loan $(131,378,718 \times 65\%) - 26,275,744$	59,120,744	
Revenue from a Non-exchange Transaction		59,120,744

Disclosures



72. A federal entity shall disclose the following information:

- A. The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:
 - ✓ Taxes, showing separately major classes of taxes;
 - ✓ Transfers, showing major classes of transfer revenue.
- B. The amount of receivables recognized in respect of non-exchange revenue;
- C. The amount of liabilities recognized in respect of transferred assets subject to conditions;
- D. The amount of liabilities recognized in respect of concessionary loans subject to conditions;
- E. The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
- F. The amount of advance receipts in respect of non-exchange transactions;
- G. The amount of any liabilities forgiven.



73. In the summary of adopted policies, a federal entity shall disclose:

- A. The accounting policies adopted for the recognition of revenue from non-exchange transactions;
- B. The bases for measuring the fair value of flowing resources for major classes of revenue from non-exchange transactions;
- C. Information about the nature of the tax for major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs;
- D. The nature and type of major classes of bequests, gifts and donations, showing separately major classes of goods in-kind received.

74. A federal entity shall disclose services in-kind received in the following cases:

- A. If the amount of services in-kind is material;
- B. If the services provided by volunteers are material in nature, in order to determine the extent to which the federal entity is dependent on a particular class of services in-kind.



Standard 11 - Revenue from Construction Contracts

Standard 11 - Revenue from Construction Contracts

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 11 (IPSAS 11) which deals with revenue and expenses arising from construction contracts. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to understand and explain the accounting treatment of revenue and expenses associated with construction contracts, and prescribe their recognition requirements and measurement bases.
2. This Standard primarily addresses the following topics:
 - A. The definition of construction contracts;
 - B. Prescribing the key elements when combining and segmenting construction contracts;
 - C. The particulars of recognizing revenue and expenses arising from construction contracts;
 - D. The bases for measuring revenue and expenses associated with construction contracts.
3. Some construction contracts entered into by federal entities may not specify an amount of contract revenue, as funding is provided from contributions or grants for the development of a project without the primary purpose being to recognize revenue. Rather, the main issue in accounting for construction contracts is to allocate costs to the reporting period during which the construction work is performed and to recognition related expenses. A federal entity may also enter into construction contracts on a commercial basis, a non-commercial basis or a full or partial cost recovery basis. In these cases, the primary issue in accounting for construction contracts is the allocation of both contract revenue and contract costs to the reporting periods in which construction work is performed.

Scope

4. This Standard applies to all federal entities that enter directly into construction contracts, to which the definition of a contractor applies.
5. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards, as detailed in the introduction thereto, to which the definition of a contractor applies.

Definition of Construction Contracts



6. A construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.
7. Construction contracts may also include all arrangements that are binding on the parties to the arrangement, but which may not take the form of a documented contract. For example, two federal entities may enter into a formal arrangement for the construction of an asset but the arrangement may not constitute a legal contract, yet it confers similar rights and obligations on the parties to it as if it were in the form of a legal construction contract. Such arrangements may include, without limitation:
 - A. A ministerial directive;
 - B. A Council of Minister's resolution;
 - C. A legislative directive;
 - D. A memorandum of understanding.



8. The key elements of a construction contract are:
 - A. Work commencement and completion dates, which normally occur in different reporting periods;
 - B. The contract costs to be incurred by the contractor in the construction of assets, and the corresponding revenue;
 - C. Responsibilities of the contracting parties, specifying clearly the rights and obligations associated with the construction contracts.
9. A construction contract may also include:
 - A. The provision of services directly associated with the construction of assets, for example, a project manager or architectural manager service contract;
 - B. The demolition or restoration of assets and restoration of the environment affected by the demolition of assets.



Example 11.1 - Definition of a Construction Contract

First assumption:

The Ministry of Infrastructure signed a construction contract with a private company to carry out construction work.

Accordingly, the responsibilities of each party to the agreement are as follows:

- The private company is the contractor and will construct the office and record revenue;
- The Ministry of Infrastructure is the principal (client) and will monitor the progress of work and the payments for the contractor.

Second assumption:

A federal entity signed an agreement with the Ministry of Infrastructure to restore a building, and the Ministry of Infrastructure used its own resources to provide the agreed restoration services.

Accordingly, the responsibilities of each party to this agreement are as follows:

- The Ministry of Infrastructure is the contractor, and will provide restoration services and record revenue;
- The Federal entity is the principal (client).



10. There are two types of construction contracts:

- A. Fixed price construction contracts;
- B. Cost or cost plus based construction contracts.

11. Some construction contracts may contain characteristics of both a fixed price contract and a cost plus based contract (cost based contract), for example in the case of a cost plus based contract with an agreed maximum price for the asset to be constructed.



12. Construction contracts may be:

- A. Commercial contracts: These contracts give rise to revenue that covers the contractor's costs in constructing the asset as agreed, and generate a profit margin to be paid by the second party (agent / client) to the contract;
- B. Non-commercial contracts: These contracts are non-profitable, such as contracts entered into by a federal entity (first party) to construct an asset for another federal entity or other party (second party) in return for full or partial reimbursement of costs from that second party. Cost recovery may encompass payments by the recipient federal entity or grants or funding from other parties.



Example 11.2 - Cost Based Contract (Non-Commercial Contract)

The Ministry of Infrastructure signed an agreement with a private real estate establishment for the execution and construction of road connections to connect the housing compounds of the establishment to the main road network. The agreement includes the following information:

- Work commencement date is May 30, 2015;
- Work duration is 18 months;
- Project cost is AED 12 million;
- The Ministry of Infrastructure will recover the costs in the form of payments to be transferred by the private real estate establishment to the Ministry of Finance.

Accordingly, the responsibilities of each party to this agreement are as follows:

- The Ministry of Infrastructure is the contractor, and will carry out project work and record construction costs in expenses and amounts collected by the Ministry of Finance in revenue (amount due from related parties).
- The Ministry of Finance only collects the amounts. Therefore, it is a principal and will not record any expense or revenue. Rather, it will only record collected amounts in amounts due to related parties (Ministry of Infrastructure).

Combining and Segmenting Construction Contracts

13. This Standard is usually applied separately to each construction contract. However, when certain conditions are satisfied:

- A. A contract shall be segmented into a group of contracts to be treated separately;
or
- B. A group of contracts shall be combined and treated as a single contract.



14. A construction contract shall be segmented into a group of contracts when it covers a number of assets, the construction of each shall be treated as a separate construction contract. This shall occur when the following conditions are met:

- A. Separate proposals have been submitted for each asset;
- B. Each asset has been subject to separate negotiation and both parties to the contract have been able to accept or reject that part of the contract relating to each asset;
- C. The costs and revenues of each asset can be identified.



Example 11.3 - Segmenting a Construction Contract

The Ministry of Education conducted negotiations with a federal entity that constructs major projects regarding the possibility of building class rooms, a gym and an administrative building for a school. A single contract covering the assets' construction details and terms was signed. During negotiations, the entity provided the Ministry with 3 different proposals and the delivery terms, timeline and costs for each asset were discussed. Accordingly, the federal entity assigned to construct the assets should treat this contract as 3 different construction contracts.



15. A group of contracts, whether with a single party or with several parties, shall be combined and treated as a single construction contract when the following conditions are met:
 - A. The group of contracts is negotiated together (as a single package);
 - B. The contracts are so closely interrelated that they are, in effect, part of a single project;
 - C. The contracts are performed concurrently or in a continuous sequence.



Example 11.4 - Combining a Group of Construction Contracts

A federal entity signed an agreement with the Ministry of Infrastructure for the construction of a movable bridge. The entity submitted an audited business proposal for the project and an agreement was made to complete the project within a maximum period of 24 months for the cost of AED 150 million. Two contracts were signed between the federal entity and the Ministry of Infrastructure:

Contract 1 - Road construction and pavement;

Contract 2 - Installation of bridge moving equipment.

Accordingly, the federal entity assigned to the project should combine the two contracts because the following conditions are met:

- A. Both contracts have been negotiated and agreed as a single project;
- B. The contracts are closely interrelated;
- C. Both contracts will be performed concurrently.



16. A present construction contract may result in the two parties agreeing on the construction of an additional asset. A federal entity shall treat an additional asset as a separate contract when the following conditions are met:
 - A. The asset differs significantly in design, technology used or function from the asset or assets covered by the original contract;
 - B. The price of the asset is negotiated without regard to the original contract price.



Example 11.5 - Construction of an Additional Asset under a Present Construction Contract

Based on the inputs provided in Example 11.3

The Ministry of Education asked the federal entity responsible for the school construction project about the possibility of building and preparing a parking area for the school. The entity studied the request and negotiated and agreed on the parking area delivery terms and the additional asset construction cost with the Ministry.

Accordingly, the federal entity should treat the additional asset to be constructed as a separate contract because the following conditions are met:

- A. The parking area differs significantly in design, technology and function from the remaining assets;
- B. The price has been negotiated separately from the remaining assets.

Construction Contracts Revenue and Expenses Components

Construction Contracts Revenue Components



17. Construction contracts revenue includes:

- A. The initial amount of revenue agreed in the contract;
- B. Variations in contract work, claims and incentive payments, provided that they satisfy related conditions.

18. A federal entity shall measure construction contracts revenue at the fair value of the consideration received or receivable.

19. Variations in work result from an instruction to the contractor by the client (federal entity or other party) for a change in the scope of the work to be performed under the contract. A variation may lead to an increase or a decrease in contract revenue. Examples of variations are changes in the specifications or design of the asset and changes in the duration of the contract.



20. A variation shall give rise to revenue when the following conditions are met:

- A. It is probable that the client will approve the variation and the amount of revenue arising from the variation;
- B. The amount of revenue can be measured reliably.

21. Claims arise when a contractor incurs additional costs that are not included in the initial contract amount. Accordingly, the contractor requests reimbursement of such amounts from the client or other party. Claims arise, for example, from a delay caused by the client, specification or design errors or disputed variations in contract work. The measurement of revenue from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations.



22. Revenue from claims shall be recognized when the following conditions are met:

- A. Negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
- B. The amount that will probably be accepted by the customer can be measured reliably.

23. Incentive payments are additional amounts paid to the contractor if specified performance standards are met or exceeded, such as early completion of a contract.



24. Incentive payments shall be recognized as revenue if the following conditions are met:

- A. The contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded;
- B. The amount of the incentive payment can be measured reliably.

Construction Contracts Costs Components



25. Construction contracts costs primarily, but not exclusively, include the following components:

- A. Costs that relate directly to the contract. These costs include:
 - ✓ Site labor costs, including site supervision costs;
 - ✓ Cost of materials used in construction;
 - ✓ Depreciation of property and equipment used under the contract;
 - ✓ Cost of moving property, equipment and materials to and from the contract site;
 - ✓ Borrowing costs (see FGAAS 5 "Borrowing Costs");
 - ✓ Costs of hiring equipment.
- B. Costs that are attributable to the activity of a group of contracts in general and can be allocated to the contract on a systematic and rational basis, such as insurance and supervision of a group of contracts by an architectural manager;
- C. Other costs that are specifically chargeable to the client under the terms of the contract.

26. Construction contracts costs shall not include the following components:

- A. Selling and marketing costs;
- B. General administration costs that cannot be determined and allocated to a specific contract;
- C. Research and development costs that cannot be determined and allocated to a specific contract;
- D. Depreciation of property and equipment that are not used in contract work.

Recognition of Construction Contracts Revenue and Expenses

Recognition when the Outcome of a Contract Can be Estimated



27. When the outcome of a construction contract can be estimated reliably, a federal entity that is responsible for the performance of the contract shall recognize contract revenue and costs by reference to the stage of completion of the contract activity at the reporting date.



28. The outcome of a contract shall be estimated reliably, depending on the nature of the contract, and when the following conditions are satisfied:

Fixed Price Construction Contracts	Cost based or Cost Plus Construction Contracts
A. Total contract revenue, if any, can be measured reliably; B. It is probable that the economic benefits associated with the contract will flow to the federal entity; C. Costs to complete the contract can be measured reliably; D. The stage of completion, at the closing date, can be assessed reliably; E. Contract costs that are attributable to the activity of a group of contracts in general and can be assessed and allocated on a systematic and rational basis.	A. It is probable that the economic benefits associated with the contract will flow to the federal entity; B. Costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured.

29. A federal entity performing a construction contract shall immediately recognize any expected deficit on the construction as an expense as discussed in paragraph 37 of this Standard.

Percentage of Completion Methods



30. A federal entity responsible for the performance of a construction contract may determine the percentage of completion in a variety of ways, which may include:

- A. The proportion of contract costs incurred for work performed until the reporting date to the estimated total contract costs;
- B. Survey of work performed; or
- C. Completion of a physical proportion of the contracted work.

31. When the percentage of completion is determined by reference to the contract costs incurred until the reporting date, a federal entity shall include only the costs of work completed to date. Examples of contract costs which shall not be included are:

- A. Costs that relate to a future activity under the contract, such as costs of materials that have not been used or have been purchased and moved to another site;
 - B. Advance payments made to subcontractors for work to be performed in the future.
32. A federal entity shall apply the percentage of completion method on a cumulative basis in reporting periods. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, shall be accounted for as a "change in an accounting estimate" the effect of which shall be recognized in the statement of financial performance for the current period (for more details, see FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors").
33. A contract may have incurred contract costs that are related to future activity on the contract. Such contract costs are recognized as an asset, provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.



Example 11.6 - Recognition of Revenue by Reference to the Percentage of Completion

During the current year, a federal entity signed a construction contract for the value of AED 65 million.

At the end of the year, the federal entity's accounts show the following information:

- A. Direct expenses of AED 25 million have been paid;
- B. The amount paid includes materials for the value of AED 4 million that have not been used during the current year.
- C. The execution team assessed the total contract cost at AED 58 million.

Revenue related to this contract is recognized using the percentage of completion method.

1. When determining the percentage of completion, actual expenses for the period are determined at AED 21 million (AED 4 million - AED 25 million).
2. Determining the percentage of completion which is the proportion of actual costs for the period to the total contract cost: $21 / 58 = 32\%$
3. Measuring the revenue to be recognized during the period: $\text{AED } 65 \text{ million} \times 32\% = \text{AED } 20.8 \text{ million}.$

Recognition when the Outcome of a Contract Cannot be Estimated



34. When the outcome of a construction contract cannot be reliably estimated:
- A. The federal entity performing the construction contract shall recognize contract costs as expenses in the period in which they are incurred;
 - B. Revenue shall be recognized only to the extent of contract costs incurred and will probably be recovered.
35. When the recovery of costs incurred is not probable, such amounts shall be recognized as expenses. Examples of costs the recovery of which is not probable include:
- A. Costs incurred but are not enforceable, thus rendering their relation to the construction contract questionable;
 - B. Costs depending on the outcome of or decision in an ongoing lawsuit;
 - C. When the principal (contracted entity) is unable to discharge its obligations;
 - D. When the federal entity (contractor) is unable to complete the contract or discharge all its contractual obligations.



Example 11.7 - Recognition of Revenue when the Outcome of a Contract Cannot be Estimated

During the current year, a federal entity signed a specific construction contract for the value of AED 1.5 million and incurred construction costs of AED 150,000. This amount includes general administrative expenses of AED 20,000 relating to a group of contracts, but the amounts cannot be allocated to a specific contract in a precise and reliable manner.

At the reporting date, the federal entity cannot assess the total amount of expected contract costs, nor assess the percentage of completion to date.

Revenue associated with this contract is recognized only to the extent of contract costs incurred and will probably be recovered. Therefore, the amount of revenue to be recorded for the current period is AED 130,000, and the amount of administrative expenses cannot be included in recoverable costs and should, therefore, be excluded from the amount of revenue.

Recognition of Expected deficit



36. A federal entity responsible for the performance of a construction contract shall recognize an expected deficit on a construction contract in the statement of financial performance for the period in which the deficit is expected.
37. Deficit arises when it is probable that total contract costs will exceed total contract revenue. Expected deficit should be recognized as an expense immediately.

38. A federal entity may enter into construction contracts which state that the revenue intended to cover the construction costs will be provided by the other parties to the contract. In these cases, an expected deficit on a construction contract shall be recognized immediately in accordance with paragraph 37.
39. As noted in paragraph 12 of this Standard, a federal entity (first party) may enter into a construction contract for the construction of an asset for another federal entity or other parties (second party) in return for full or partial recovery of costs from the second party to the contract. Cost recovery may include payments from the recipient entity or grants of funding from other parties. In this case, the requirements of paragraph 37 shall not apply to the deficit arising from this type of construction contracts.

Disclosures



40. A federal entity shall disclose the following in its financial statements:
- A. The accounting policies adopted for the recognition of construction contracts revenue, including the methods adopted to determine the percentage of completion;
 - B. The amount of contracts revenue recognized for the period;
 - C. The methods used to determine contracts revenue recognized for the period;
 - D. The methods used to determine the stage of completion in progress;
 - E. The total amount of costs incurred and surplus / deficit recognized to date;
 - F. The amount of advance payments received;
 - G. Retained amounts;
 - H. The total amount due from clients for contract work as an asset;
 - I. The total amount due to clients for contract work as a liability.

Transitional Provisions

Under the requirements of FGAAS 33 “First-time Adoption of the Accrual Basis”, a federal entity adopting federal Government Accrual Accounting Standards for the first time may change its accounting policies relating to recognition and measurement of revenue from non-exchange transactions prior to the expiry of the grace period of three years from the date of adopting FGAAS in the preparation of financial statements.

During the grace period, a federal entity may adopt the change to federal Government Accrual Accounting standards for each class of revenue from non-exchange transactions separately. The grace period enables a federal entity to develop reliable models for recognition and measurement of revenue from non-exchange transactions in accordance with federal Government Accrual Accounting Standards.

Effective Date

The provisions of these Standards shall apply after the approval of the Federal Government Accrual Accounting Standards by the UAE Council of Ministers.

Technical References

- IPSAS 9 - Revenue from Exchange Transactions.
- IPSAS 23 - Revenue from Non-exchange Transactions.
- IPSAS 11 - Construction Contracts.



Section - Liabilities

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Document Control

This document contains the Federal Government Accrual Accounting Standard relating to provisions, contingent liabilities and contingent assets of the Federal Government of the UAE

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	November 2020	December 2020	• Add a point in paragraph 3 related to the scope in standard 19 "Provisions, Contingent Liabilities and Contingent Assets" • The point related to social benefits as an exception to the scope of the standard has been removed in Paragraphs 8, 9 and 10 in Standard 19 "Provisions, Contingent Liabilities and Contingent Assets" • Addition of paragraph 74 related to presentation and disclosure in Standard 19 "Provisions, Contingent Liabilities and Contingent Assets"
Third Version	December 2023		• Amending the text of Paragraph 51 and adding points (a) and (b) to the section on contracts with material liabilities in Standard 19 "Provisions, Contingent Liabilities and Contingent Assets".
Fifth Version	August 2025		• Introducing updates in line with recent amendments to the standards as follow: Amending the scope of Standard 19 "Provisions, Contingent Liabilities and Contingent Assets" to include onerous leases defined under Standard 43 "Lease", including short-term and low-value leases

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of the accounting standard applicable to the Federal Government with respect to the accounting treatment and manner of presentation, measurement and disclosure of provisions, contingent liabilities and contingent assets in financial statements.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Definitions



The following terms are used in this Standard in the following context:

Term	Definition
Contingent Asset	A possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the federal entity.
Restructuring	A program that is planned and controlled by management, and materially changes either: ✓ The scope of a federal entity's activities; or ✓ The manner in which those activities are carried out.
Constructive Obligation	is an obligation that derives from a federal entity's actions where: ✓ By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and ✓ As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
Legal Obligation	An obligation that derives from: ✓ A contract (through its explicit or implicit terms); ✓ Legislation; or ✓ Other operation of law.
Contingent Liability	An obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or A present obligation that arises from past events but is not recognised because: ✓ It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or ✓ The amount of the obligation cannot be measured with sufficient reliability.
Liabilities	Obligations arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential.

Term	Definition
Obligating Event	An event that creates a legal or constructive obligation that results in a federal entity having no realistic alternative to settling that obligation.
Onerous Contract	A contract for the exchange of assets or services in which the unavoidable costs of completing the contract exceed the economic benefits or service potential expected to be received under it.
Executory Contracts	Contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
Provision	A liability of uncertain timing or amount.



Standard 19 - Provisions, Contingent Liabilities and Contingent Assets

Standard 19 - Provisions, Contingent Liabilities and Contingent Assets

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 19 (IPSAS 19) which deals with provisions, contingent liabilities and contingent assets. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of UAE Federal Government.

The Standard for Provisions, Contingent Liabilities and Contingent Assets

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Objective



1. The objective of this Standard is to:
 - A. Define provisions, contingent liabilities and contingent assets,
 - B. Prescribe the circumstances in which provisions should be recognised, how they should be measured and the information to be disclosed.

This Standard also requires disclosure of contingent liabilities and contingent assets in the notes to financial statements to enable federal entities to understand the nature, timing and amount of these contingent liabilities / assets.

Scope



2. This Standard applies to all federal entities covered by the Manual of FGAAS as detailed in the introduction thereto.
3. This Standard should be applied to provisions, contingent liabilities and contingent assets, except:
 - A. Those resulting from executory contracts, other than where the contract is onerous as discussed in paragraphs 51 to 53 of this Standard.
 - B. Those covered by another FGAAS. For example, particular types of provisions are discussed in the standards for:
 - ✓ Construction contracts (see FGAAS 11 “Revenue from Construction Contracts”); and
 - ✓ Leases (see FGAAS 43 “Leases”). However, this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in FGAAS 43. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance to FGAAS 43 and that have become onerous.
 - C. Those arising from employee benefits except employee end-of-service benefits that arise as a result of a restructuring as dealt with in this Standard. Guidance on employee benefits is provided in FGAAS 39 “Employee Benefits”.

This Standard does not apply to the contingent consideration of an acquirer in a business combination which is within the scope of FGAAS 40 “Business Combinations”.

4. This Standard applies to provisions arising from restructuring, including discontinued operations. When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations. And does not apply to financial instruments (including guarantees) that are within the scope of FGAAS 41 “Financial Instruments”.
5. Some amounts treated as provisions may relate to the recognition of revenue (for example: Where a federal entity gives guarantees in exchange for a fee). This Standard in itself does

not address the recognition of revenue. FGAAS 9 “Revenue from Exchange Transactions” deals with that topic.

6. The term “provision” is used when certain items are discussed, such as the provision for doubtful debts in FGAAS 41 “Financial Instruments” and provision for impairment of assets in FGAAS 21 “Impairment of Non-cash Generating Assets” and FGAAS 26 “Impairment of Cash-generating Assets”, but those provisions are adjustments to the amounts of their assets and are not covered by the recommendations of this Standard.

Difference between Provisions and Other Liabilities



7. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required to settle a provision, whereas this information is available for:
 - A. Payables, which are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
 - B. Accruals, which are liabilities for goods or services that have been received or supplied but have not been invoiced or formally agreed with the supplier. Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty of the amount or timing is generally much less than for provisions.

Accruals are often recorded as part of accounts payable, whereas provisions are recorded separately.

Provisions



Recognition

8. A provision shall be recognised when the following conditions for recognition are met:
 - A. The federal entity has a present obligation (legal or constructive) as a result of a past event;
 - B. It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
 - C. The amount of the obligation can be estimated reliably.

If these conditions are not met, no provision shall be recognised. Following is an explanation of the above mentioned conditions for recognition.

Present Obligation



9. In most cases it will be clear whether a past event has given rise to a present obligation or not. In other cases (for example in a lawsuit) it may be disputed either whether certain events have occurred or whether those events have resulted in a present obligation. In such cases, a federal entity shall determine whether a present obligation exists at the reporting date by considering all available evidence (for example, the opinion of experts). The evidence available

shall include any additional evidence provided by events after the reporting date. On the basis of such evidence:

- A. Where it is more likely than not that a present obligation exists at the reporting date, the federal entity shall recognise a provision (if the recognition criteria are met); and
- B. Where it is more likely that no present obligation exists at the reporting date, the federal entity shall disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Past Event



10. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

- A. Where the settlement of the obligation can be enforced by law; or
- B. In the case of a constructive obligation, where the event (which may be an action of the federal entity) creates valid expectations on the part of other parties that the entity will discharge the obligation.

11. Financial statements deal with the financial position of a federal entity at the end of its financial period and not its possible financial position in the future. Therefore, no provision is recognised for costs that may be incurred to continue a federal entity's ongoing activities in the future. Therefore, the only liabilities recognised in a federal entity's statement of financial position shall be those that exist at the reporting date.



12. Only those obligations arising from past events existing independently of a federal entity's future actions (that is, the future conduct of its activities) shall be recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a federal entity. The settlement of both of these obligations may lead to an outflow of resources embodying economic benefits or service potential regardless of the future actions of that federal entity. Similarly, a federal entity may recognise a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station to the extent that the federal entity is obliged to rectify damage already caused (FGAAS 17 "Property, Plant and Equipment" deals with items, including dismantling and site restoring costs, that are included in the cost of an asset).

13. Contrary to the previous paragraph, a federal entity may (because of legal requirements, pressure from representatives of the people or a desire to demonstrate community leadership) intend to incur expenditure to operate in a particular way in the future. An example would be where a federal entity decides to fit emission control systems on a certain group of its vehicles. Because the federal entity can avoid the future expenditure arising from its future actions, for example, by changing its method of operation, it has no present obligation for that future expenditure and no provision shall be recognised in these cases.

14. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed; indeed,



the obligation may be to the community as a whole. Because an obligation always involves another party, it follows that a decision by a federal entity's management does not give rise to a constructive obligation at the reporting date unless the decision has been communicated before the reporting date to the other party affected by it in a sufficiently specific manner to create a valid expectation on the part of that party that the federal entity will discharge its responsibilities.

15. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in laws or because an act, such as a sufficiently specific public statement by the federal entity giving rise to a constructive obligation. For example, when environmental damage is caused by a government agency there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the federal entity generally accepts responsibility for rectification in a way that gives rise to a constructive obligation.

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

16. For a liability to meet recognition conditions, there must be a probability of an outflow of resources embodying economic benefits or service potential to settle that liability. For the purpose of this Standard, an outflow of resources or other event shall be regarded as probable if the likelihood that the event will occur is high. Where it is not probable that a present obligation exists, a federal entity shall disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote, in which case the entity shall not make any disclosure.
17. Where there is a number of similar obligations, the probability that an outflow will be required in settlement shall be determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision shall be recognised (if the other recognition criteria are met).

**Example 19.1 - Present Obligation, Past Event and Probable Outflow of Economic Benefits**

Transfusion of contaminated blood to some individuals in a government hospital caused their medical condition to deteriorate severely later on. The hospital neither recognises the transfusion of contaminated blood nor its responsibility for the health complications suffered by the patients. Later on, legal action was initiated against the hospital demanding compensation.

Until the reporting date in December 2014, hospital lawyers suggest that it is unlikely that the hospital will be proven responsible for the transfusion of contaminated blood or subsequent deterioration of patients' health condition.

At the reporting date for the year ending on December 2015, as investigations of the case evolved, lawyers suggested that it is likely that the hospital will be proven responsible for the transfusion of contaminated blood and, consequently, have to pay compensations.

Analysis and accounting treatment:**On December 31, 2014**

Based on the evidence available at the reporting date, there is nothing to indicate the existence of a present obligation due to an obligating past event, as, according to experts (hospital lawyers) it has neither been proven nor is likely to be proven that the hospital is responsible for the transfusion of contaminated blood and subsequent health complications suffered by the patients. Therefore, no provision for compensations is recognised by the hospital, but the matter is disclosed as a contingent liability.

On December 31, 2015

Based on the evidence available at the reporting date, there is an indication of a present obligation due to an obligating past event, and the outflow of resources embodying the compensation amount became likely. Therefore, a provision is recognised at the best estimate of the obligation settlement amount.

Reliable Estimate of the Obligation



18. The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.
19. In the extremely rare cases where no reliable estimate can be made and liability that cannot be recognised exists, that liability shall be disclosed as a contingent liability.

Measurement

Measurement of Provisions by Estimation



20. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The best estimate of the expenditure required to settle the present obligation is the amount that a federal entity would reasonably pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or extremely expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would reasonably pay to settle or transfer the obligation provides the best estimate of the expenditure required to settle the present obligation at the reporting date.
21. The outcome and financial effect shall be determined by the judgment of the management of the federal entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered shall include any additional evidence provided by events after the reporting date.



22. Uncertainties surrounding the amount to be recognised as a provision are taken into account by various means according to the circumstances. Where the provision being measured involves a large number of items, the obligation shall be estimated by weighting all possible outcomes by their associated probabilities. This statistical method of estimation is called “expected value”. The provision will therefore be different depending on the probability of a loss of a given amount. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range shall be used.



Example 19.2 - Measurement of Provisions by Estimation

A government medical laboratory provides diagnostic photo scanners to both government owned and privately owned medical centers and hospitals.

This equipment is provided with a warranty which covers the cost of repairs of any defects that become apparent within the first six months after purchase. If minor defects were detected in all equipment provided, repair costs of AED 1 million would result. If major defects were detected in all equipment provided, repair costs of AED 4 million would result. The laboratory's past experience and future expectations indicate that, for the coming year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects and 5% of the equipment will have major defects. The laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

$(75\% \text{ of no defects}) + (20\% \text{ of minor defects normally repaired for a cost of 1 million}) + (5\% \text{ of major defects normally repaired for a cost of 4 million}) = \text{AED } 400,000$

23. Where a single obligation is being measured, the individual most likely outcome shall be the best estimate of the liability. However, even in such a case, the federal entity shall consider other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate shall be a higher or lower amount.

**Example 19.3 - Measurement of Provisions by Estimation**

If a federal entity has to rectify a serious fault in a defense vehicle that it has constructed for another government, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of AED 100,000, but a provision for a larger amount is made if there is a significant probability that further attempts will be necessary to repair the vehicle.

When measuring provisions, the following shall also be considered:

- A. Risks and uncertainties;
- B. Present value and discount rate;
- C. Future events;
- D. Expected disposal of assets.
- E. Reimbursements.

Following is a detailed explanation of each:

Risks and Uncertainties



24. The risks (as well as uncertainties) that surround many events and circumstances should be taken into account in reaching the best estimate of a provision, because risks usually cause outcomes to vary leading to variations in the amount at which a liability is calculated



25. Caution is necessary in making judgments under conditions of uncertainty, so that the amounts of revenue or assets are not overstated and the amounts of expenses or liabilities are not understated. Uncertainty shall not justify the creation of excessive provisions or a deliberate overstatement of the amount of liabilities.

Present Value and Discount Rate



26. Where the effect of the time value of money is material (for example: Settlement of a provision after more than 12 months of the date of the statement of financial position), the amount of the provision shall be the present value of the expenditures required to settle the obligation.



27. The appropriate discount rate shall be the rate that reflects the risks specific to the liability, with the exception of future cash flows that have already been adjusted for risks as on the measurement date. Where a provision is discounted over a number of years, the present value of the provision shall increase each year as the provision comes closer to the expected time of settlement, and the increase shall be recognised in the statement of financial performance as interest expense (see example 19.4: The effect of the Discount Rate on the Measurement of a Provision).



Example 19.4 - The Effect of the Discount Rate on the Measurement of a Provision

At the end of 2015, a federal entity estimated the expected amount of a provision to be used to discharge a particular obligation at the end of 2020 to be AED 2,000. The appropriate discount rate, considering the risks associated with such cash outflow, was estimated to be 12%.

Provision calculation method:

Present value = Future obligation / (1 + interest) ^ number of periods

		Increase
Present time (end of 2015)	Present value = 2,000 / (1.12) ⁵ = AED 1,134.85	
End of first year (2016)	Present value = 2,000 / (1.12) ⁴ = AED 1,271.04	136.18
End of second year (2017)	Present value = 2,000 / (1.12) ³ = AED 1,423.56	152.52
End of third year (2018)	Present value = 2,000 / (1.12) ² = AED 1,594.39	170.83
End of fourth year (2019)	Present value = 2,000 / (1.12) ¹ = AED 1,785.71	191.33
End of fifth year (2020)	Present value = 2,000 / (1.12) ⁰ = AED 2,000.00	214.29

Accounting entries:

At the end of 2015:

Description	Debit	Credit



Example 19.4 - The Effect of the Discount Rate on the Measurement of a Provision

Expense	1,134.85	
Provision		1,134.85
At the end of first year (2016):		
Description	Debit	Credit
Interest Expense	136.18	
Provision		136.18
At the end of second year (2017):		
Description	Debit	Credit
Interest Expense	152.52	
Provision		152.52
At the end of third year (2018):		
Description	Debit	Credit
Interest Expense	170.83	
Provision		170.83
At the end of fourth year (2019):		
Description	Debit	Credit
Interest Expense	191.33	
Provision		191.33
At the end of fifth year (2020):		
Description	Debit	Credit
Interest Expense	214.29	
Provision		214.29
When the obligation is settled from the provision:		
Description	Debit	Credit
Provision	2,000	
Payable / Bank		2,000



Table 1 - Summary of the Treatment of Provisions and Contingent Liabilities

Based on the above, provisions and contingent liabilities shall be treated as follows:

A provision shall be recognised when there is a present obligation that probably requires an outflow of resources and the amount of the obligation can be estimated reliably. In addition, disclosures shall be made in accordance with the requirements of this Standard.	No provision shall be recognised when there is a possible obligation or present obligation that may (but not certainly) require an outflow of resources. However, a contingent liability shall be disclosed in accordance with the requirements of this Standard.	No provision shall be recognised if there is a possible obligation or present obligation where the likelihood of an outflow of resources is remote. In these cases, this Standard does not require the federal entity to make any disclosures.

Future Events



28. Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.



Example 19.5 - Examples of Future Events

A. Inflation and expected price changes:

If there is sufficient objective evidence of likely expected rates of inflation or that an expected change in the prices may have an effect on the money needed to settle the obligation, this should be reflected in the estimated amount of the provision.

B. The effect of future technologies:

If there is sufficient objective evidence that the cost of discharging an obligation in the future will be reduced by expected future changes in the technologies used, this shall be reflected in the estimated amount of the provision. For example: a federal entity may, based on sufficient objective evidence, believe that the cost of cleaning up a natural gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount recognised shall reflect the cost that technically qualified objective observers reasonably expect to be incurred, taking into account all available evidence as to the technology that will be available at the time of the clean-up.

C. The effect of possible new legislation:

A possible new legislation which may affect the amount of a present obligation of a federal entity when there is sufficient objective evidence that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient objective evidence of what the legislation will demand and of whether it is virtually certain to be enacted and

**Example 19.5 - Examples of Future Events**

implemented in the expected time. Since sufficient objective evidence is unlikely to exist unless the new legislation is enacted, the decision should be postponed until the new legislation is actually enacted.

Expected Disposal of Assets

29. A federal entity shall not take gains from an expected disposal of assets into account when measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, the federal entity shall recognise gains from the expected disposal of assets at the time specified by the FGAAS dealing with the assets to be disposed of.

Reimbursements

30. When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is virtually certain that reimbursement will be received if the federal entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.
31. The expense relating to a provision may be presented in the statement of financial performance less the amount recognised for a reimbursement.
32. In most cases, a federal entity will remain liable for the whole of the amount of the provision so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this case, a provision shall be recognised for the full amount of the liability, and a separate asset for the expected reimbursement shall be recognised when it is virtually certain that reimbursement will be received if the federal entity settles the liability

**Example 19.6 - The Effect of Reimbursement on a Provision Account**

A federal entity allocated a certain amount for a lawsuit filed against it at the end of the year. Also at the end of the year, the federal entity was negotiating with an insurance company to reimburse the amount to be paid in respect of the lawsuit, although there is an initial agreement with the insurance company stating that reimbursement shall be made if the federal entity loses the lawsuit. Although the amount of reimbursement from the insurer has not been agreed upon at the end of the year, it is very likely that the amount payable for the lawsuit will be incurred after the end of the year and that reimbursement will be agreed upon with the insurer before financial statements are authorised.

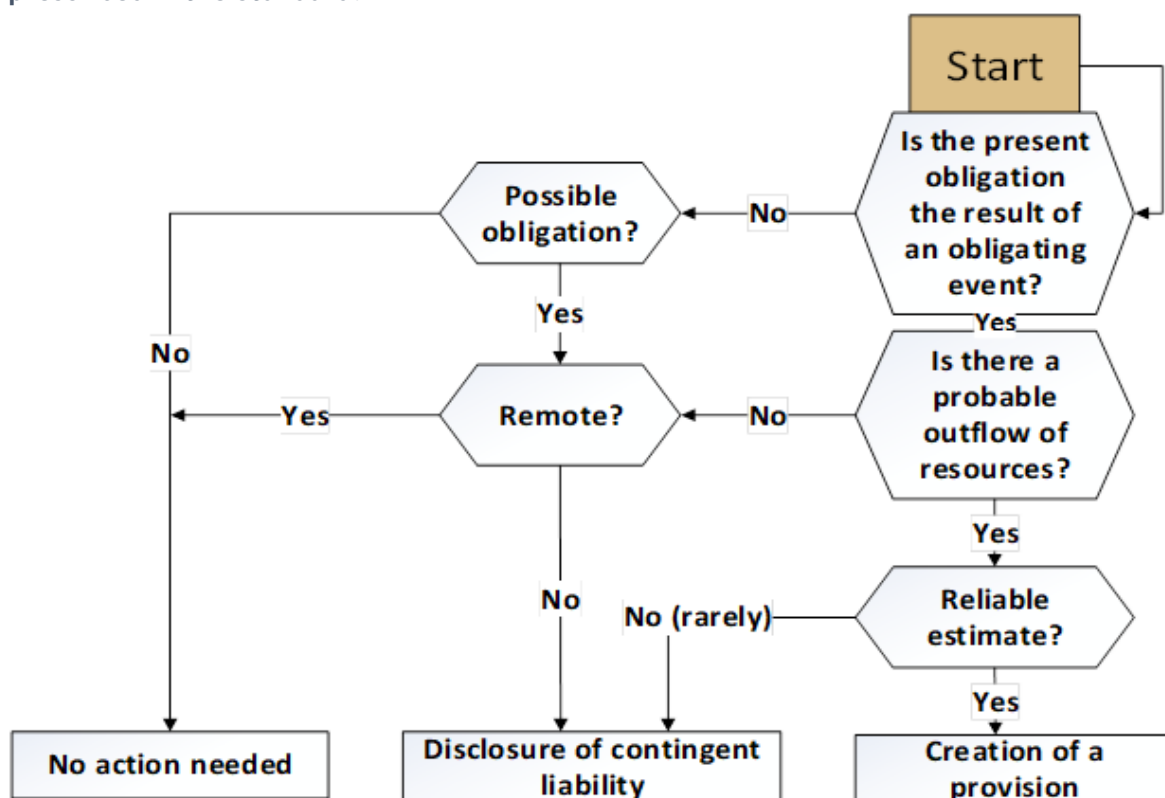
Therefore, the asset should be recognised in the financial statements if it is virtually certain at the date of the statement of financial position that reimbursement will be received if the federal entity settles the obligation. Settlement of the lawsuit after the end of the year will

Example 19.6 - The Effect of Reimbursement on a Provision Account

confirm the amount of the liability to be recognised at the date of the statement of financial position.

Illustrative Decision Tree

The purpose of the decision tree is to summarise the main recognition requirements prescribed in the Standard.



Subsequent Measurement

Review of Provisions and Derecognition



33. Provisions shall be remeasured at each date of the statement of financial position and the carrying amount of the liability shall be adjusted accordingly. Remeasurement may result in an increase or decrease in the amount of a provision, or derecognition of the provision as a whole based on new inputs.

Use of Provisions

34. A provision shall be used only to settle expenditures relating to it. Settlement of expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

Future Operating Net Deficit



35. Provisions relating to future operating net deficit shall not be recognised because they do not meet the definition of liabilities as specified in the Standard. Future operating net deficit is an indication that certain operating assets may be impaired. In this case, a federal entity shall test these assets for impairment. Reference may be made to FGAAS 21 “Impairment of Non-cash Generating Assets” and FGAAS 26 “Impairment of Cash-generating Assets”.

Applications of Recognition and Measurement Rules

Restructuring Provision

Recognition of a Restructuring Provision



36. Normally, restructuring is associated with the creation of constructive obligations on the parties affected by restructuring. This Standard explains the conditions to be met by such constructive obligations so that they can be recognised as provisions. It also explains the conditions to be met by a restructuring plan.
37. The following are examples of events that may fall under the definition of restructuring:
- A. Termination or disposal of a government activity or service;
 - B. The closure of a branch or termination of activities of a government agency in a specific location or region or the relocation of activities from one region to another;
 - C. Changes in management structure, for example, eliminating a management or executive layer;
 - D. Fundamental reorganisations that have a material effect on the nature and focus of the federal entity’s operations.

38. A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 8 of this Standard are met.



39. A constructive obligation to restructure arises when:

- A. A federal entity has a detailed formal plan for the restructuring identifying at least:
 - ✓ The activity / operating unit or part of an activity / operating unit concerned;
 - ✓ The principal locations affected;
 - ✓ The location, function and approximate number of employees who will be compensated for terminating their services;
 - ✓ The expenditures that will be incurred;
 - ✓ When the plan will be implemented;
 - B. A federal entity has raised a valid expectation on the part of those affected by the restructuring that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.
40. Within the public sector, restructuring may occur at the whole-of-government, government project, ministry or agency level.
-  41. Evidence that a federal entity has started to implement a restructuring plan may be provided by:
- A. The public announcement of the main features of the plan, for example; or
 - B. The sale or transfer of assets; or
 - C. Notification of the intention to cancel leases; or
 - D. The establishment of alternative arrangements for clients of services.
42. A public announcement of a detailed plan to restructure shall constitute a constructive obligation to restructure only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it creates valid expectations on the part of other parties such as users of the service, suppliers and employees (or their representatives) that the federal entity will carry out the restructuring.
43. A federal entity shall determine whether or not an obligating event has occurred. All available evidence shall be assessed to determine whether a plan is sufficiently detailed to create valid expectations on the part of others. No timeframe shall be set for plan implementation. However, plans that are implemented relatively quickly create an expectation regarding management's commitment to a restructuring plan.
-  44. A decision by a management or a federal entity to restructure made before the reporting date shall not give rise to a constructive obligation at the reporting date unless the federal entity has, before the reporting date:
- A. Started to implement the restructuring plan; or
 - B. Announced the main features of the restructuring plan to those affected by it in a sufficient manner to increase valid expectations on their part that the federal entity will carry out the restructuring.

For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it:

- A. Its implementation needs to be planned to begin as soon as possible; and

- B. It needs to be completed in a timeframe that makes significant changes to the plan unlikely.

45. If a federal entity starts to implement a restructuring plan, or announces its main features to those affected by it, after the reporting date, disclosure may be required under FGAAS 14 “Events after the Reporting Date” if the restructuring is so material that non-disclosure of it could influence the economic decisions made by users of the financial statements.

Sale or Transfer of Operations



46. When a federal entity makes a decision to sell or transfer an operation / activity and announces that decision, it shall not be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity shall be able to change its mind and indeed will have to take another course of action as long as a purchaser that meets acceptable terms has not been found. When a sale is part of a restructuring, a constructive obligation may arise for the other parts of the restructuring even before a binding sale agreement exists.

47. Restructuring within the public sector often involves the transfer of operations from one controlled federal entity to another and may involve the transfer of operations at no or nominal consideration. Such transfers will often take place under a government directive and will not involve binding agreements as described in paragraph 46. An obligation exists only when there is a binding transfer agreement. Even where proposed transfers do not lead to the recognition of a provision, the planned transaction may require disclosure under other Federal Government Accrual Accounting Standards such as FGAAS 14 “Events after the Reporting Date” and FGAAS 20 “Related Party Disclosures.”



Example 19.7 - Recognition of Restructuring Provisions

A federal entity prepared a plan to restructure its operations and the plan was approved by management, which means that some services of this entity will be discontinued. The entity's management will conduct another analysis before deciding on the services to be discontinued. The management made a public announcement of its intention and believes that this announcement has given rise to an obligation that it has to recognise as a liability.

In this case, no restructuring provision shall be recognised.

A contingent liability arises only when a federal entity has a formal detailed restructuring plan that it announces to the persons affected by it. To date, the plan does not provide sufficient details to allow the recognition of a contingent liability.

In some cases, however, management's decision may confirm the existence of an obligation.

For example, in the case where employees are consulted about the restructuring and the restructuring plan is developed with their participation, management's approval identifies the obligation when a decision is made and communicated to the employees of the federal entity.

Measurement of a Restructuring Provision



48. A restructuring provision shall include only the direct expenditures arising from the restructuring, which are:

- A. Necessarily entailed by the restructuring;

- B. Not associated with the ongoing activities of the entity.



49. A restructuring provision shall not include the costs of:

- A. Retraining or relocating continuing staff;
- B. Marketing; or
- C. Investment in new systems and distribution networks.

These expenditures relate to the future conduct of an activity and are not liabilities for restructuring at the reporting date. Such expenditures shall be recognised on the same basis as if they arose independently of the restructuring.

50. An identifiable future operating net deficit up to the date of a restructuring shall not be included in a provision, unless it relates to an onerous contract as defined in the introduction to this Standard.



Gains from the expected disposal of assets shall not be taken into account in measuring a restructuring provision, even if the sale of assets is regarded as part of the restructuring.

Example 19.8 - Measurement of Restructuring Provisions

A federal entity's management decided to end the services of 100 employees over the next two years. End-of-service costs associated with employee benefits are AED 20 million, 8 million of which are payable in the first year and 12 within two years. The market return on UAE treasury bonds in 2007 was 5.5% (used as a discount rate).

Management should recognise an end-of-service provision as the present value of future cash flows of AED 18,364,360 calculated as follows:

	Year 1	Year 2	Total
Cash flows	8,000,000	12,000,000	20,000,000
Discount rate (5.5%)	0.94787	0.89845	
Present value of cash flows	7,582,960	10,781,400	18,364,360
Difference: Interest receivable			1,635,640

The difference of 1,635,640 between the undiscounted cash flows and their present value is recognised as interest receivable over the first and second years.

Onerous Contracts



51. An onerous contract is a contract in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits or services potential expected to be received under it, which includes amounts recoverable. Therefore, a present obligation under an onerous contract shall be recognised and recorded as a provision.

The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties

arising from failure to fulfill it. The cost of fulfilling a contract comprises the cost that relate directly to the contract. Costs that relate directly to a contract consist of both:

- A. The incremental costs of fulfilling that contract - for example, direct labor and materials; and
- B. An allocation of other costs that relate directly to fulfilling contracts - for example, an allocation of the depreciation charge for an item of property, plant, and equipment used in fulfilling that contract among others.



52. Before a separate provision for an onerous contract is established, a federal entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

Example 19.9 - An Onerous Contract

Suppose that a federal entity leased a property from a third party. The lease is a 10-year operating lease and the rental amount is AED 50,000 a year. The total contract cost is therefore AED 500,000. The federal entity did not operate the property, but arranged for it to be sub-leased for AED 30,000 for 10 years.

The total revenue that will be received from the sub-lease is AED 300,000.

The cost of continuing the lease and sub-lease is AED 200,000 (AED 500,000 - AED 300,000).

The fine for exiting from the lease and sub-lease is AED 150,000. Nonetheless, management believes that exiting from the contract would not be to the best interest of the federal entity's reputation and is, therefore, considering the possibility of continuing the lease and sub-lease.

The management should recognise a provision of AED 150,000 which is the least of the lower of the cost of exiting the contracts (AED 150,000) and the cost of continuing the contracts (AED 200,000). Management's decision to continue the contracts does not affect the amount to be recognised.

Presentation and Disclosure



53. A federal entity shall disclose the following for each class of provision:
- A. The carrying amount at the beginning and end of the period;
 - B. Additional provisions made during the period, including increases to existing provisions;
 - C. Amounts used (that is, incurred and charged against the provision) during the period;
 - D. The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate; and
 - E. Unused amounts reversed during the period;



54. A federal entity shall disclose the following for each class of provisions:
- A. A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

- B. An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, a federal entity shall disclose the major assumptions made concerning future events, as discussed in paragraph 32; and
- C. The amount of any expected reimbursements, stating the amount of any asset that has been recognised for those expected reimbursements.

55. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 54, 55 and 67. Therefore, it may be appropriate to treat amounts relating to one type of obligation as a single class of provision, but it would not be appropriate to treat amounts relating to environmental restoration costs and amounts that arise from legal proceedings as a single class.
56. Where a provision and a contingent liability arise from the same set of circumstances, a federal entity shall make the disclosures required by paragraphs 54, 55 and 67 in a way that shows the link between the provision and the contingent liability.
57. A federal entity may in certain circumstances use external valuation to measure a provision. In such cases, it would be useful to disclose information relating to the valuation.



58. Where the information required by paragraphs 54, 55 and 73 is not disclosed because it is impractical to do so, this fact shall be stated.
59. In extremely rare cases, disclosure of some or all of the information required by paragraphs 54 to 59 may be expected to seriously prejudice the position of the federal entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, the federal entity shall not need to disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Contingent Liabilities

Recognition



60. A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision. A contingent liability shall not be recognised, but shall be disclosed because the likelihood of an outflow of resources embodying economic benefits or service potential is remote.
61. When a federal entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties shall be treated as a contingent liability. For example, in the case of joint venture debt, that part of the obligation that is to be met by other joint venture participants shall be treated as a contingent liability. The federal entity shall recognise a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

62. Contingent liabilities shall be assessed continuously to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision shall be recognised in the financial statements of the period in which the change in probability occurs (except in cases where no reliable estimate can be made).



Example 19.10 - Contingent Liability

A federal entity may violate an environmental law, but it remains unclear whether or not any damage to the environment has occurred. When in a later time it becomes clear that a damage has occurred and it needs to be rectified, the federal entity may recognise a provision because an outflow of economic benefits has become probable.

Relationship between Provisions and Contingent Liabilities

63. In general, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term “contingent” is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the federal entity. In addition, the term “contingent liability” is used for liabilities that do not meet the recognition requirements in this Standard.

Initial Measurement



64. A federal entity shall measure contingent liabilities using the same principles used for provisions, as discussed where they are recognised as a provision. Contingent liabilities shall not be measured if no reliable estimate of the amount of the liability is made.

Subsequent Measurement



65. At each reporting date, a federal entity shall review the appropriate classification of contingent liabilities and determine, in light of new facts and circumstances, whether contingent liabilities need to be reclassified into another appropriate class, such as:
- A. Provisions (for example: If, in the case of a contingent liability a cash outflow becomes likely and its amount can be measured reliably);
 - B. Payables (For example: If the event that gave rise to the liability occurs but the timing and amount of the liability is uncertain).

Presentation and Disclosure



66. For each class of contingent liabilities at the reporting date, a federal entity shall disclose a brief description of the nature of the contingent liability, unless the probability of any outflow in its settlement is remote. In addition, a federal entity shall, wherever possible, also disclose:
- A. An estimate of its financial effect;
 - B. An indication of the uncertainties about the amount or timing of any outflow;
 - C. The probability of any reimbursement.

Contingent Assets

Recognition



67. A federal entity shall not recognise a contingent asset.
68. Contingent assets usually arise from unplanned or unexpected events that:
- A. Are not wholly within the control of the federal entity; and
 - B. Give rise to the possibility of an inflow of economic benefits or service potential to the federal entity.

An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

69. Contingent assets shall not be recognised in financial statements since this may result in the recognition of revenue that may never be realised. However, when the realisation of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Initial Measurement



70. At each reporting date, the appropriate classification of contingent assets shall be reviewed to determine whether - in light of new facts and circumstances - contingent assets need to be reclassified into a more appropriate class.

Subsequent Measurement



71. At each reporting date, the appropriate classification of contingent assets shall be reviewed to determine whether - in light of new facts and circumstances - contingent assets need to be reclassified into a more appropriate class.

Table 2 - Summary of the Treatment of Contingent Assets

Based on the above, contingent assets shall be treated as follows:

Table 2 - Summary of the Treatment of Contingent Assets

An asset shall be recognised in accordance with the appropriate standard if an inflow of economic benefits or service potential is certain and the asset is, therefore, not a contingent asset	An asset shall only be disclosed but not recognised where an inflow of economic benefits or service potential is likely but not virtually certain.	An asset shall neither be disclosed nor recognised if an inflow of economic benefits or service potential is unlikely.

Presentation and Disclosure



72. Where an inflow of economic benefits or service potential is probable, a federal entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect. It is important for disclosures of contingent assets to avoid giving misleading indications of the likelihood of revenue increases.
73. The disclosure requirements in paragraph 73 encompass contingent assets from both exchange and non-exchange transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets by referring to FGAAS 23 "Revenue from Non-Exchange Transactions".



Example 19.11 - Disclosure and Recognition of a Contingent Asset

Suppose that a federal entity has a property that was damaged by fire and indemnity was claimed from the insurance company. At the reporting date on December 31, 2010, the insurance company had neither paid the indemnity nor confirmed its intention to pay. What disclosures is the federal entity required to make?

The federal entity discloses only a contingent asset and its expected financial amount where practicable, because insurance indemnity is likely but not certain.

Since contingent assets are usually subject to more stringent recognition criteria than those of contingent liabilities, recognition is postponed until payment becomes certain.

Therefore, on December 31, 2010, the loss arising from the fire should be recognised immediately, whereas the income from the receipt of the insurance indemnity may be recognised in the next accounting period when it becomes certain.

Transitional Provisions

Under the requirements of FGAAS 33 “First-time Adoption of the Accrual Basis”, a federal entity adopting federal Government Accrual Accounting Standards for the first time may benefit from a transition period of three years during which it shall be exempted from the requirement to recognise and measure provisions and contingent liabilities relating to property, plant and equipment only if the entity benefits from the transition period for property, plant and equipment, such that the federal entity is not required to recognise provisions arising from its commitment to dismantle and remove an asset and restore a site until the exemption expires or the relevant asset is recognised, whichever is earlier.

Effective Date

The provisions of these Standards shall apply after the approval of the Federal Government Accrual Accounting Standards by the UAE Council of Ministers.

Technical References

IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets



Section- Employee Benefits

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Document Control

This document contains the Federal Government Accrual Accounting Standard relating to employee benefits of the Federal Government of the UAE.

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	November 2020	December 2020	Amendment of Standard No. 39 - Employee Benefits by aligning it with the new International Public Sector Accounting Standard (IPSAS 39 - a summary of the changes is explained below): • Remove an option to allow the entity to defer recognition of changes in the net defined benefit obligation • Adding net interest approach to defined benefit plans • Amending some disclosure requirements for defined benefit and multi-employer plans • Simplify requirements for contributions from employees or third parties to a defined benefit plan when those contributions are applied to a simple contribution plan linked to a service.
Third Version	November 2023		• Delete the word "composite" from the sentence "composite social security programs" in Paragraph 4 of Standard 39 "Employee Benefits". • Delete the word "composite" from the sentence "contribute to the composite social security program" in Paragraph 5b of Standard 39 "Employee Benefits".

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of the accounting standard applicable to the Federal Government with respect to employee benefits, in addition to the manner of recognition, measurement, presentation and disclosure of these benefits in financial statements.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the UAE; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Definitions



The following terms are used in this Standard in the following context:

Term	Definition
Actuarial Gains and Losses	They comprise: A. Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); B. The effects of changes in actuarial assumptions.
Plan Assets	They comprise: A. Assets held by a long-term employee benefit fund; and B. Qualifying insurance policies.
Assets Held by a Long-term Employee Benefit Fund	Assets (other than non-transferable financial instruments issued by the reporting federal entity) that: A. Are held by the fund of another federal entity that is legally separate from the federal entity (such as the General Pension and Social Security Authority) and pays or funds employee benefit obligations; B. Are available to be used to pay or fund employee benefits, are not available to the reporting federal entity's own creditors and cannot be returned to the reporting federal entity, unless either: ✓ The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting federal entity; or ✓ The assets are returned to the reporting federal entity to reimburse it for employee benefits already paid.
Composite Social Security Programs	Programs established by legislation; and A. Operate as "multi-employer" to provide post-employment benefits; and to B. Provide benefits that may be regarded as consideration for the service rendered by employees.
Actuarial Assumptions	Estimates of an uncertain variables used as inputs into financial models, normally for the purposes of calculating and determining premiums or benefits relating to certain types of contracts such as post-retirement employee benefit plans. For example, predicting employees' post-retirement lifespan, given their age, gender, health

Term	Definition
	conditions and other factors, for the purpose of establishing plans for investing the assets of the pension fund in a manner that is sufficient to pay benefits to those retired employees for their remaining lives. Actuaries normally use statistical data to correlate an uncertain variable to a variety of key predictive variables so that they can make sound actuarial assumptions that can be relied on in measuring future obligations.
Qualifying Insurance Policy	In some cases, a separate federal entity (e.g. the General Pension and Social Security Authority) may hold an insurance policy to fund some or all employee benefits in the current or prior periods, and pay insurance proceeds in the cases prescribed in the definition of assets held by a long-term employee benefit fund.
Current Service Cost	The increase in the present value of the defined benefit obligation resulting from employee service in the current period.
Past Service Cost	The increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or changed such that the present value of the defined benefit obligation is increased) or negative (where existing benefits are changed such that the present value of the defined benefit obligation is reduced).
Interest Cost	The increase during a period in the present value of a defined benefit obligation which, accounting-wise, arises because settlement time has become closer.
State Plans	Plans other than composite social security programs established by legislation which operate as if they are “multi-employer plans” for all government entities in economic categories specified in legislation.
Multi-employer (Employee Benefit) Plans	Defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that: A. Pool the assets contributed by various entities that are not under common control; B. Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Term	Definition
Defined Contribution Plans	Post-employment benefit plans under which a federal entity pays fixed contributions to a separate entity (the General Pension and Social Security Authority) and will have no legal or constructive obligation to pay further contributions if that separate entity (such as the General Pension and Social Security Authority) does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
Defined Benefit Plans	Post-employment benefit plans other than defined contribution plans.
Post-employment Benefit Plans	Formal or informal arrangements under which a federal entity provides post-employment benefits for one or more employees.
Present Value of a Defined Benefit Obligation	The present value of expected future payments that are necessary to settle an obligation arising from employee service in the current and prior periods, without deducting any plan assets.
Employee Benefits	All forms of consideration given by a federal entity in exchange for services rendered by employees.
Other Long-term Employee Benefits	Employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within 12 months after the end of the fiscal period in which the employees render the related service.
Short-term Employee Benefits	Employee benefits (other than termination benefits) which fall due wholly within 12 months after the end of the fiscal period in which the employees render the related service.
Termination Benefits	Employee benefits payable in any of the following two cases: A. If a federal entity decides to terminate an employee's service before the normal retirement date; B. An employee accepts voluntary redundancy in exchange for those benefits.
Post-employment Benefits	Employee benefits (other than termination benefits) that are payable after the end of employment.
Net defined benefit liability (asset)	Is the deficit surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.
The deficit or surplus	C. The deficit or surplus is: D. The present value of the defined benefit obligation less E. The fair value of plan assets (if any).

Term	Definition
The asset ceiling	Is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
The present value of a defined benefit obligation	Is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
Net interest on the net defined benefit liability (asset)	Is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.
Remeasurement of the net defined benefit liability (asset)	Comprise: A. Actuarial gains and losses; B. The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and C. Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).
Return on Plan Assets	Interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains and losses on the plan assets, less: A. Any costs of managing the plan assets; and B. Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.
A settlement	Is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.



Standard 39 - Employee Benefits

Standard 39 - Employee Benefits

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 39 (IPSAS 39) which deals with employee benefits. It is worth mentioning that some text of standard 39 has been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to prescribe the bases for disclosing and accounting for employee benefits, by requiring a federal entity to recognise
 - A. Liabilities relating to employee benefits;
 - B. The expense incurred by the federal entity when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for those benefits.

Scope



2. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards (FGAAS) as detailed in the introduction thereto. A federal entity shall apply this Standard when accounting for benefits of all its employees, including all federal government employees and military personnel.
3. This Standard does not deal with reporting on employee retirement benefit plans, nor does it specify any amount relating to pensions or end-of-service indemnity (which are prescribed in relevant federal pension laws and labor laws).
4. This Standard does not deal with benefits provided by social security programs that are not considered in exchange for service rendered by employees or past employees of other federal entities.
5. Employee benefits to which this Standard applies include those prescribed:
 - A. Under formal plans or other formal agreements between a federal entity and individual employees, groups of employees or their representatives;
 - B. Under legislative requirements (as in the Pension Law or labor laws) or through economic agreements, whereby federal entities are required to contribute to national, state, industry or other multi-employer plans or where federal entities are required to contribute to the composite social security program; or
 - C. By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the federal entity has no alternative but to pay employee benefits. An example of a constructive obligation is where a change in the federal entity's informal practices would cause unacceptable damage to its relationship with employees.

6. Employee benefits include:

- A. Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within 12 months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- B. Post-employment benefits such as pensions and other post-employment life insurance benefits and post-employment medical care;
- C. Other long-term employee benefits, which may include long-service leave or sabbatical leave or other long-term benefits, long-term disability benefits, performance bonuses and, if payable within 12 months or more after the end of the period, deferred compensation; and
- D. Termination benefits

Because each category identified above has different characteristics, this Standard establishes separate requirements for each category.

- 7. Employee benefits include benefits provided to either employees or their dependents and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependents or to others, such as insurance companies.
- 8. An employee may provide services to a federal entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include key management personnel.

Short-term Employee Benefits



9. Short-term employee benefits shall include:

- A. Wages, salaries and social security contributions;
- B. Short-term compensated absences (such as paid annual leave and paid sick leave) where the absence compensation is required to be settled within 12 months after the end of the period in which the employees render the related services;
- C. Performance related bonuses payable within 12 months after the end of the period in which the employees render their services;
- D. Non-monetary benefits (such as healthcare, housing, cars and subsidised goods or services) for current employees.

- 10. A federal entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and Measurement

All Short-term Employee Benefits



11. When an employee renders service to a federal entity during an accounting period, the federal entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
 - A. As a liability (accrued expense), after deducting any amount already paid, if the amount already paid exceeds the undiscounted amount of the benefits, the federal entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
 - B. As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, FGAAS 12 for inventories and FGAAS 17 for property, plant and equipment.).
12. Paragraphs 13, 16, and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.

Short-term Compensated Absences



13. A federal entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph 11 as follows:
 - A. In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and
 - B. In the case of non-accumulating compensated absences, when the absences occur.
14. A federal entity may compensate employees for absence for various reasons including annual vacation, sickness and short-term disability, maternity or paternity and military service. Entitlement to compensated absences falls into two categories:
 - A. Accumulating; and
 - B. Non-accumulating.
15. Accumulating compensated absences are those that are carried forward and can be used in the future if not used in full in the current period. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement to absence) or non-vesting (when employees are not entitled to a cash payment for unused entitlement to absence). An obligation arises when employees render services that would increase their entitlement to future compensated absences. The obligation shall exist and be recognised even if the compensated absences are non-vesting, although the possibility that employees may leave the federal entity before they use accumulated non-vesting absences affects the measurement of that obligation.



16. A federal entity shall measure the cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused absences that have accumulated at the reporting date.
17. The method specified in paragraph 16 measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, a federal entity may not need to make detailed computations to estimate that there is no real obligation for unused compensated absences. For example, a compensated sick leave obligation is likely to be real only if there is a formal or informal agreement that unused paid sick leave may be included in paid vacation.
18. Non-accumulating compensated absences may not be carried forward, but rather lapse if the current period's entitlement to absence is not used in full, and do not entitle employees to a cash payment for unused absences. This is often the case for sick leaves (to the extent that unused past absences do not increase an employee's future entitlement), maternity or paternity leave and compensated absences for military service. A federal entity shall not recognise a liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.



Example 39.1 - Paid Vacations

Assuming that employees of any federal entity are entitled to a 30-day paid vacation. The entitlement arises equally during the year and unused absences may be carried to future periods. There are no cash payments for any unused entitlements if an employee leaves a federal entity.

As on December 31, 2015, 100 employees work for a federal entity and the average unused entitlements are two days per employee. Historically, 10 percent of employees leave without obtaining their unused entitlements, and the entity's management expects this trend to continue.

Non-entitlement

At the reporting date (December 31), the federal entity should recognise a liability representing the number of accumulating vacation entitlements which are payable in the future. This is 180 days (i.e. 90% of 200 days).

Entitlement

If the federal entity is going to change its work terms and conditions, such as making any cash payments for unused annual vacation entitlements when an employee leaves work, the amount payable will be for 200 days. This is because it is inappropriate for 10% of employees not to use all their annual vacation entitlements so that they can receive payment equal to those entitlements when they leave the federal entity.



Bonus Payments and Profit-sharing Payments



19. Every federal entity shall recognise the expected cost of bonus payments and profit-sharing payments under paragraph 11 when, and only when:

- A. The federal entity has a present or constructive obligation to make such payments as a result of past events; and
- B. A reliable estimate of the amount of the obligation can be made.

An obligation exists when, and only when, the federal entity has no alternative but to make these payments.



Example 39.2 - Accounting for Performance-Related Bonus plan

A performance-related bonus plan requires a government printing unit to pay a specified proportion of its surplus for the year to employees who meet predetermined performance targets and serve throughout the year, i.e., are in post on both the first and last day of the reporting period. If no employees leave during the year, the total bonus payments for the year will be 3% of actual surplus. The federal entity determines that staff turnover will reduce the payments 2.5% of actual surplus.

The entity recognizes a liability and an expense of 2.5% of actual surplus.

20. Given the objectives of federal entities, profit-sharing plans are not as common in the federal government as they are in profit-oriented establishments in the private sector. However, they are likely to be an aspect of employee remuneration in certain segments of the federal government that operate on a commercial basis. Some federal entities may not operate profit-sharing schemes, but may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets.
21. A federal entity may have no legal obligation to pay an annual bonus to its employees. Nevertheless, in some cases, a federal entity may have a practice of paying bonuses. In such cases, the federal entity has a constructive obligation because it has no alternative but to pay the bonus. The measurement of such constructive obligation reflects the possibility that some employees may leave without receiving a bonus.
22. A federal entity can make reliable estimates of its legal or constructive obligations under a performance-related payment scheme, bonus plan or profit-sharing scheme when, and only when:
 - A. The formal terms of the plan contain a formula for determining the amount of the benefit;
 - B. The federal entity determines the amounts expected to be paid before the financial statements are authorised for issue; or
 - C. Past practice gives evidence of the amount of the federal entity's constructive obligation.
23. An obligation under annual bonus plans and profit-sharing plans results from employee service and is recognised as an expense in the statement of financial performance.



24. If bonus and profit-sharing payments are not due wholly within 12 months after the end of the period in which the employees render their services, those payments shall be other long-term benefits (see paragraphs 155 - 161).

Disclosure



25. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, FGAAS 1 which deals with the presentation of financial statements requires disclosures of employee benefits and FGAAS 20 which deals with related party disclosures requires the disclosure of information about the remuneration of key management personnel.

Long term Benefits

Post-employment Benefits: Distinction between Defined Contribution Plans and Defined Benefit Plans



26. Post-employment benefits include items such as the following:

- A. Retirement benefits (e.g., pensions and lump sum payments on retirement); and
- B. Other post-employment benefits, such as post-employment life insurance, and post-employment medical care.

Arrangements whereby a federal entity provides post-employment benefits are post-employment plans. An entity applies this Standard to all such arrangements, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

27. None of the forms of plans prescribed in the previous paragraph affects their substance. Therefore, all these forms are classified under one of the following two main categories:

- A. Defined contribution plans; or
- B. Defined benefit plans.

The classification depends primarily on the economic substance of a plan as provided for in its main terms and conditions. For example, state plans or multi-federal entity's plans may be classified as either defined contribution plans or defined benefit plans.

Defined Contribution Plans



28. A plan shall be classified as a defined contribution plan when:

- A. The federal entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the General Pension and Social Security Authority (another separate federal entity established to receive contributions and pay retirement benefits). An employee may participate with the federal entity in contribution payments (by deducting a portion of his/her monthly salary);
- B. The federal entity does not assume any actuarial risk (the risk that benefits may be less than expected) or investment risk (the risk that assets invested will be insufficient

to provide the expected benefits in the future). At the same time, the contributing federal entity has no authority over the management of the General Pension and Social Security Authority, nor does it have the right to claim any surplus arising from the investment of retirement funds assets by the General Pension and Social Security Authority.

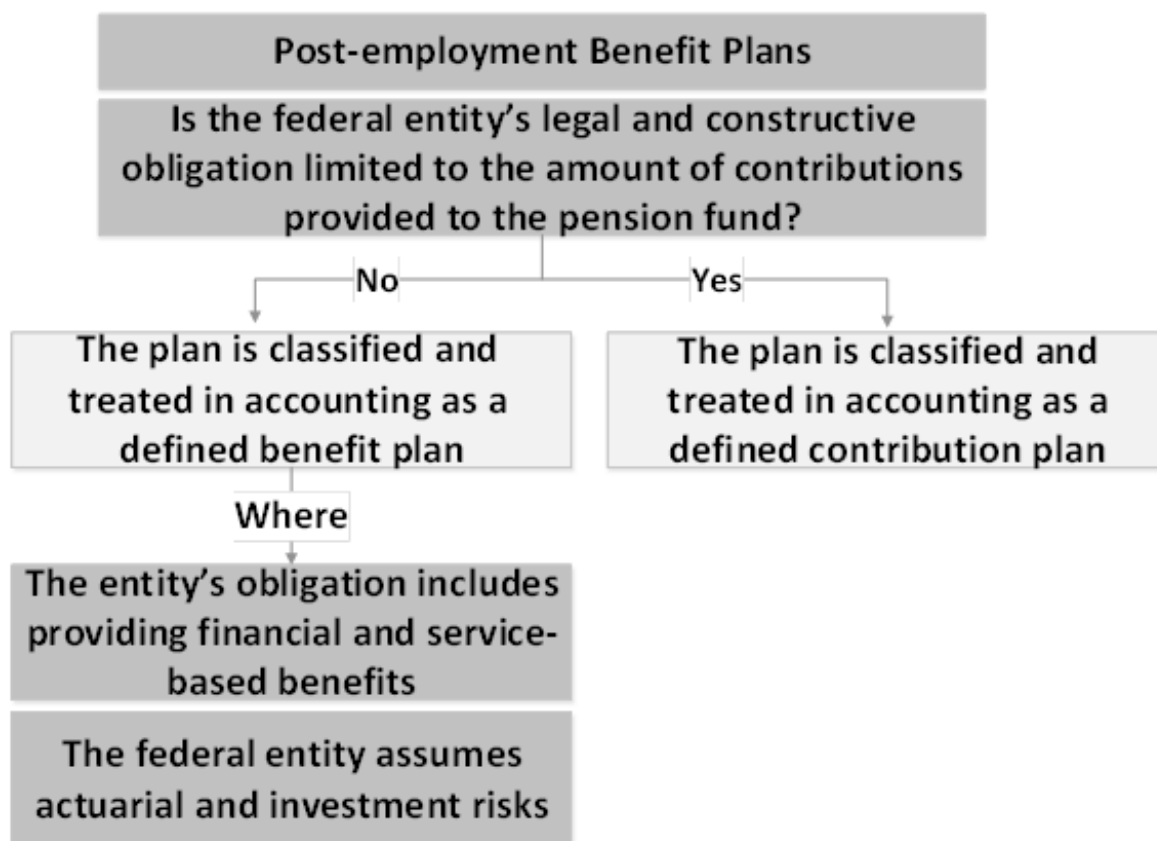
- C. Defined contribution plans require that the pension fund be a separate entity.
29. Examples of cases where a federal entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the federal entity has a legal or constructive obligation through:
- A. A plan benefit formula that is not linked solely to the amount of contributions and requires the federal entity to provide further contribution if assets are insufficient to meet the benefits in the plan benefit formula;
 - B. A guarantee, either indirectly through a plan or directly of a specified return on contributions; or
 - C. Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where a federal entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

Defined Benefit Plans



30. On the other hand, a plan shall be classified as a defined benefit plan when:
- A. The federal entity's obligation is to provide the agreed benefits to current and former employees, and not only to pay contributions;
 - B. The federal entity primarily assumes actuarial risk (the risk that benefits may be more than expected) and investment risk, such that actuarial and investment results may increase the federal entity's obligation;
 - C. Unlike defined contribution plans, defined benefit plans do not require the payment of contributions to a separate entity, but the federal entity may manage plan assets by itself.
 - D. The amount of benefits is not necessarily dependent on the amount of contributions. As in defined contribution plans, an employee may participate with the federal entity in contribution payments (by deducting a portion of his/her monthly salary);
31. Paragraphs (32 to 51) include guidelines regarding the distinction between defined contribution plans and defined benefit plans. These guidelines shall apply to all forms of plans set out in paragraph 26.

The following decision tree explains how post-employment benefit plans are classified into defined benefit plans or defined contribution plans.



Multi-employer Plans



32. A federal entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).
33. If a federal entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:
 - A. Account for the proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and
 - B. Disclose the information required by paragraph 137-150, excluding paragraph 150 (D)).
34. When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, the federal entity shall:
 - A. Account for the plan in accordance with paragraphs 53 and 54 as if it were a defined contribution plan; and
 - B. Disclose the information required by paragraph 150.
35. One example of a multi-employer defined benefit plan is one where:

- A. The plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and
 - B. Employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.
36. Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:
- A. The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual entities participating in the plan; or
 - B. The entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph 150.

37. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.
38. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

39. In determining when to recognize, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply FGAAS 19, Provisions, Contingent Liabilities and Contingent Assets.



Example 39.3 - Multi-employer Plans

Federal entity (A) participates with other federal entities in a defined benefit plan in the form of a multi-employer plan. Because the plan exposes participating federal entities to actuarial risk associated with current and former employees of other federal entities, there is no consistent and reliable basis to allocate the liability, plan assets and costs to other federal entities participating in the plan, the federal entity accounts for the plan as a defined contribution plan.

Financing evaluation, based on assumptions that are consistent with this Standard, shows a deficit of AED 480 million in the plan. Under a binding agreement, the plan established a table for contributions with employees participating in the plan such that the deficit is eliminated over the next five years and total contributions of federal entity (A) is AED 40 million.

In this case, federal entity (A) recognises a liability for contributions, taking into account adjustments for the time value of money and equal expense in surplus or deficit.

Defined Benefit Plans that Share Risks between Entities under Common Control



40. Defined benefit plans that share risks between various entities under common control, such as controlling and controlled federal entities, shall not be regarded as multi-employer plans.
41. A federal entity participating in such a plan obtains information about the plan measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the federal entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement, arrangement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the federal entity that is the sponsoring employer for the plan. The other federal entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.
42. There are cases in the public sector where a controlling federal entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement or stated policy, as provided for in the previous paragraph, the controlling federal entity shall account on a defined contribution basis in its consolidated financial statements, and the controlled federal entity shall disclose that it accounts on a defined contribution basis in its separate financial statements. A controlled entity that

accounts on a defined benefit basis shall also provide details of the controlling federal entity, and state that, in the controlling federal entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled federal entity shall also make the disclosures prescribed in paragraph 151.

43. Participating in such a plan is a related party transaction for each individual federal entity. A federal entity shall therefore, in its separate financial statements, make the disclosures prescribed in paragraph 151.

State Plans



44. A federal entity shall account for a state plan in the same way as for a multi-employer plan (see paragraph 32-39).
45. State plans are established by legislation to cover all federal entities and are operated by the federal or local government or by another federal entity (for example, an entity created specifically for this purpose). This Standard deals only with employee benefits of a federal entity and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting federal entity. While governments may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising from such plans are not addressed in this Standard.
46. Many state plans are funded on a pay-as-you-go basis, where contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period and future benefits earned during the current period are paid out of future contributions. Federal entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If any entity's only obligation is to pay the contributions as they fall due, and the entity has no obligation to pay future benefits, it accounts for the state plan as a defined contribution plan.
47. A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

Insured Benefits



48. A federal entity may pay insurance premiums to fund a post-employment benefit plan. The federal entity shall treat such a plan as a defined contribution plan unless the federal entity has (either directly or indirectly through the plan) a legal or constructive obligation to either:
- A. Pay the employee benefits directly when they fall due; or
 - B. Pay further amounts if the insurer does not pay all employee benefits relating to employee service in the current and prior periods.

If such a legal or constructive obligation arises, the plan shall be treated as a defined benefit plan.

49. The benefits insured by an insurance contract need not have a direct or automatic relationship with the federal entity's obligation for employee benefits. Post-employment benefit plans involving insurance contracts shall be subject to the same distinction between accounting and funding as other funded plans.
50. Where a federal entity funds a post-employment benefit obligation by contributing to an insurance policy under which the federal entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity shall:
 - A. Account for the insurance policy as a plan asset (see Definitions in this Standard); and
 - B. Recognise other insurance policies as reimbursement rights (if the policies satisfy the criteria prescribed in paragraph 118).
51. Where an insurance policy (a) is in the name of a specified plan participant or a group of plan participants and (b) the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity shall not have any obligation to pay benefits to the employees and the insurer shall have sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Therefore, the federal entity no longer has an asset or a liability and shall, therefore, treat such payments as contributions to a defined contribution plan.

Post-employment Benefits - Defined Contribution Plans



52. Accounting for defined contribution plans shall be straightforward if the federal entity determines the amounts to be contributed for the period. Therefore, no actuarial assumptions shall be required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within 12 months after the end of the period in which the employees render the related services.

Recognition and Measurement



53. When an employee renders service to a federal entity during a period, the federal entity shall recognise the contribution payable to a defined contribution plan in exchange for that service as:
 - A. A liability (accrued expense), after deducting any contribution already paid. If the amount of the contribution already paid exceeds the contribution due for service before the reporting date, the federal entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

- B. An expense, unless another Standard requires or permits capitalisation of contributions by the inclusion in the cost of an asset.



54. Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the period in which the employees render their services, they shall be discounted using the discount rate specified in paragraph 85.

Disclosure



55. A federal entity shall disclose the amount recognised as an expense for defined contribution plans.
56. A federal entity shall disclose information about contributions to defined contribution plans for key management personnel as required by FGAAS 20 which deals with related party disclosures.

Post-employment Benefits - Defined Benefit Plans



57. Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the end of employment.

Recognition and Measurement



58. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by a federal entity, and sometimes its employees, into an entity or pension authority that is legally separate from the reporting federal entity and through which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund operated by the pension authority, but also on a federal entity's ability (and willingness) to compensate for any shortfall in the fund's assets. Therefore, the federal entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan shall not necessarily be the amount of the contribution due for the period.

59. Accounting by a federal entity for defined benefit plans shall involve the following steps:



- A. Determining the deficit or surplus. This involves:

- ✓ Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the federal entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 69-71). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 72-76), and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables

- (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 77-100);
- ✓ Discounting that benefits in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 69-71 and 85 -88);
 - ✓ Deducting the fair value of any plan assets (see paragraphs 115-117) from the present value of the defined benefit obligation;
- B. Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 66).
- C. Determining amounts to be recognized in surplus or deficit:
- ✓ Current service cost (see paragraph 72-76).
 - ✓ Any past service cost and gain or loss on settlement (see paragraphs 101-114).
 - ✓ Net interest on the net defined benefit liability (asset) (see paragraphs 125-128).
- D. Determining the remeasurements of the net defined benefit liability (asset), to be recognized in net assets/equity, comprising:
- ✓ Actuarial gains and losses (see paragraphs 130 and 131).
 - ✓ Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 132); and
 - ✓ Any change in the effect of the asset ceiling (see paragraph 66), excluding amounts included in net interest on the net defined benefit liability (asset).

Where a federal entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

60. A federal entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.
61. This Standard encourages, but does not require, a federal entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, a federal entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.
62. In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the Constructive Obligation



63. In addition to accounting for its legal obligation in accordance with the prescribed terms of a defined benefit plan, a federal entity shall also account for the constructive obligation that arises from the federal entity's informal practices, if any. These practices give rise to a

constructive obligation where the federal entity has no alternative but to pay benefits to employees. An example of a constructive obligation is where a change in the federal entity's informal practices would cause unacceptable damage to its relationship with employees.

64. The formal terms of a defined benefit plan may permit a federal entity to terminate its obligation under the plan. Nevertheless, it is difficult for a federal entity to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that a federal entity which is currently promising to pay such benefits will continue to do so over the working lives of employees.

Statement of Financial Position



65. A federal entity shall recognize the net defined benefit liability (asset) in the statement of financial position.
66. When a federal entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:
- A. The surplus in the defined benefit plan; and
 - B. The asset ceiling determined using the discount rate specified in paragraph 85.
67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:
- A. The entity controls a resource, which is the ability to use the surplus to generate future benefits;
 - B. That control is a result of past events (contributions paid by the entity and service rendered by the employee); and
 - C. Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and Measurement - Present Value of Defined Benefit Obligations and Current Service Cost

68. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain, and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:
- A. To apply an actuarial valuation method (see paragraphs 69-71);
 - B. To attribute benefit to periods of service (see paragraphs 72-76); and
 - C. To make actuarial assumptions (see paragraphs 77-100).

Actuarial Valuation Method

69. A federal entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.
70. The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/ years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 72-76) and measures each unit separately to build up the final obligation (see paragraphs 77-100).
71. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.



Example 39.4 - Projected Unit Credit Method

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is AED 10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum.

The following table shows how the obligation builds up for an employee who is expected to leave at the end of year five, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	1	2	3	4	5
Benefit attributed to:					
	AED				
Prior years	-	131	262	393	524
Current year (1% of final salary)	131	131	131	131	131
Current year and prior years	131	262	393	524	655
Opening obligation*	-	89	196	324	476
Interest at 10%	-	9	20	33	48
Current service cost**	89	98	108	119	131
Closing obligation***	89	196	324	476	655

Note:

*The opening obligation is the present value of benefit attributed to prior years.

**The current service cost is the present value of benefit attributed to the current year.

***The closing obligation is the present value of benefit attributed to current and prior years.

Attributing Benefit to Periods of Service



72. In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a federal entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a federal entity shall attribute benefit on a straight-line basis from:
- A. The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until
 - B. The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.
73. The projected unit credit method requires a federal entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). A federal entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that a federal entity expects to pay in future reporting periods. Actuarial techniques allow a federal entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Example 39.5 - Examples Illustrating Attributing Benefit to Years of Service



Example (A)

A defined benefit plan provides a lump sum benefit of AED 100 payable on retirement for each year of service.

Calculation Technique:

A benefit of AED 100 is attributed to each year. The current service cost is the present value of AED 100. The present value of the defined benefit obligation is the present value of AED 100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the federal entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

Example (B)

A plan provides a monthly pension of 2% of final salary for each year of service. The pension is payable from the age of 65.

Calculation Technique:

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit.

Example 39.5 - Examples Illustrating Attributing Benefit to Years of Service

The present value of the defined benefit obligation is the present value of monthly pension payments of 2% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted, because pension payments begin at the age of 65.

74. Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, a federal entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists.

Example 39.6 - Vesting and Non-Vesting Benefits

Example (A)

A plan pays a benefit of AED 100 for each year of service. The benefits vest after 10 years of service.

Calculation Technique:

A benefit of AED 100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

Example (B)

A plan pays a benefit of AED 100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

Calculation Technique:

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of AED 100 is attributed to each subsequent year.

75. The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a federal entity attributes benefit on a straight-



line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.



Example 39.7 - Vesting and Non-Vesting Benefits

Example (A)

A plan pays a lump sum benefit of AED 1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

Calculation Technique:

A benefit of AED 100 (AED 1,000 divided by 10 years) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

Example (B)

A plan pays a lump sum retirement benefit of AED 2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

Calculation Technique:

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the federal entity attributes benefit of AED 100 (AED 2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the federal entity attributes benefit of AED 100 (AED 2,000 divided by 20) to each of the first 20 years.

For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the federal entity attributes benefit of AED 200 (AED 2,000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

Example (C)

A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Calculation Technique:

Under the plans benefit formula, the federal entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% 10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

Example (D)



Example 39.7 - Vesting and Non-Vesting Benefits

A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Calculation Technique:

Service in later years will lead to a materially higher level of benefit than in earlier years.

Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 73. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving. For employees expected to leave within 10 years, no benefit is attributed.

76. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

- A. For the purpose of paragraph 72(B), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and
- B. The amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example 39.8 - Vesting and Non-Vesting Benefits

Example (A)

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Calculation Technique:

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Actuarial Assumptions



77. Actuarial assumptions shall be unbiased and mutually compatible.
78. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post- employment benefits. Actuarial assumptions comprise:
- A. Demographic assumptions about the future characteristics of current and former employees (and their dependents) who are eligible for benefits. Demographic assumptions deal with matters such as:
 - ✓ Mortality (see paragraphs 83 and 84);
 - ✓ Rates of employee turnover, disability, and early retirement;
 - ✓ The proportion of plan members with dependents who will be eligible for benefits;
 - ✓ The proportion of plan members who will select each form of payment option available under the plan terms; and
 - ✓ Claim rates under medical plans.
 - B. Financial assumptions, dealing with items such as:
 - ✓ The discount rate (see paragraphs 85-88);
 - ✓ Benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 89-97);
 - ✓ In the case of medical benefits, future medical costs, including claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 98-100); and
 - ✓ Taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.
79. The Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.
80. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.
81. A federal entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, where the benefit is index-linked, and there is a deep market in index-linked bonds of the same currency and term.
82. Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

Actuarial Assumptions: Mortality



83. A federal entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.
84. In order to estimate the ultimate cost of the benefit a federal entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial Assumptions-Discount Rate



85. The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.
86. One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the federal entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.
87. The discount rate reflects the estimated timing of benefit payments. In practice, a federal entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments, and the currency in which the benefits are to be paid.
88. A federal entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period on government bonds, high quality corporate bonds, or by another financial instrument as follows:
- A. Market yields at the end of the reporting period on government bonds will provide the best approximation of the time value of money.
 - B. However, if there is no deep market in government bonds, in such cases, the federal entity determines the rate by reference to market yields on high quality corporate bonds when available, with a sufficiently long maturity to match the estimated maturity of all the benefit payments.
 - C. There may also be circumstances where there is no deep market in government bonds or high-quality corporate bonds. In such circumstances, a federal entity uses current market rates of the appropriate term to discount shorter term payments and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final

maturity of the available financial instrument, such as government bonds or corporate bonds.

Actuarial Assumptions-Salaries, Benefits and Medical Costs



89. A federal entity shall measure its defined benefit obligations on a basis that reflects:

- A. The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;
- B. Any estimated future salary increases that affect the benefits payable;
- C. The effect of any limit on the employer's share of the cost of the future benefits;
- D. Contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and
- E. Estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - ✓ Those changes were enacted before the end of the reporting period; or
 - ✓ Historical data, or other reliable evidence, indicate that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

90. Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

- A. The federal entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;
- B. The federal entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 110(C)); or
- C. Benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

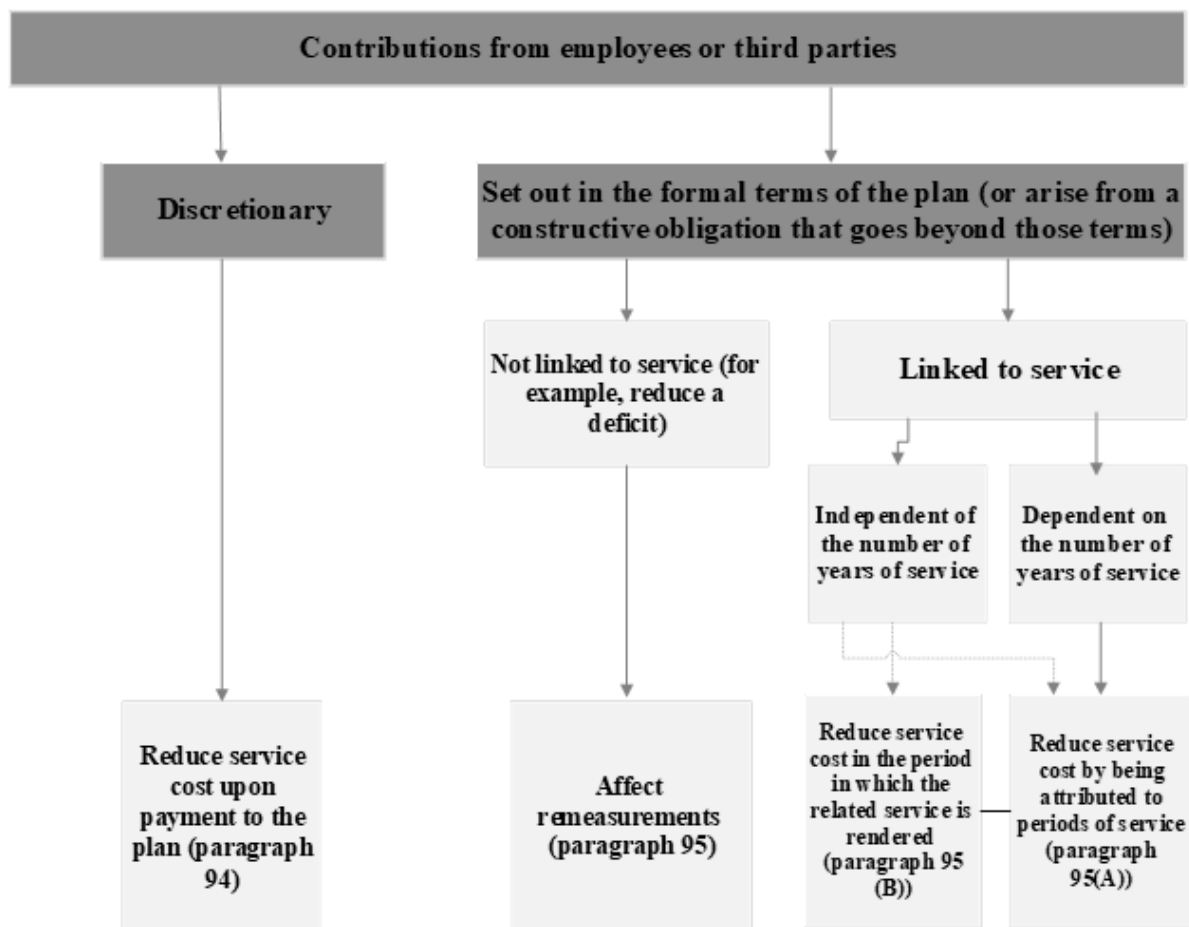


91. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

- A. Past service cost, to the extent that they change benefits for service before the change; and
- B. Current service cost for periods after the change, to the extent that they change benefits for service after the change.

92. Estimates of future salary increases take account of inflation, seniority, promotion, and other relevant factors, such as supply and demand in the employment market.
93. Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:
- A. The estimated life of the federal entity; and
 - B. The estimated life of the plan.
94. Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the federal entity. A federal entity considers whether third-party contributions reduce the cost of the benefits to the federal entity, or are a reimbursement right as described in paragraph 118. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms) or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.
95. Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service) or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:
- A. If the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph 72 for the gross benefit (i.e., either using the plan's contribution formula or on a straight-line basis); or
 - B. If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



The dotted arrow means that a federal entity is permitted to choose either accounting

96. For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 95(A), changes in the contributions result in:

- A. Current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or
- B. Actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).

97. Some post-employment benefits are linked to variables such as the level of benefit entitlements from social security pensions or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

98. Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

99. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. A federal entity estimates future medical costs on the basis of historical data about the federal entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers, or other sources. Estimates of future medical costs consider the effect of

technological advances, changes in health care utilization or delivery patterns, and changes in the health status of plan participants.

100. The level and frequency of claims is particularly sensitive to the age, health status, and gender of employees (and their dependents), and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past Service Cost and Gains and Losses on Settlement



101. When determining past service cost, or a gain or loss on settlement, a federal entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices), reflecting the benefits offered under the plan before the plan amendment, curtailment, or settlement.
102. A federal entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when a federal entity changes the benefits under the plan and settles the amended benefits later. In those cases, a federal entity recognizes past service cost before any gain or loss on settlement.
103. A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled, and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

Past Service Cost

104. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.
105. A federal entity shall recognize past service cost as an expense at the earlier of the following dates:
- A. When the plan amendment or curtailment occurs; and
 - B. When the federal entity recognizes related restructuring costs (see FGAAS 19 - Provisions, Contingent Liabilities, and Contingent Assets) or termination benefits (see paragraph 168).
106. A plan amendment occurs when a federal entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.
107. A curtailment occurs when a federal entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

108. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).
109. Where a federal entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.



110. Past service cost excludes:

- A. The effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);
- B. Underestimates and overestimates of discretionary pension increases when a federal entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);
- C. Estimates of benefit improvements that result from actuarial gains that have been recognized in the financial statements if the federal entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 90); and
- D. The increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph 74) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognized the estimated cost of benefits as current service cost as the service was rendered).

Gains and Losses on Settlement



111. The gain or loss on a settlement is the difference between:

- A. The present value of the defined benefit obligation being settled, as determined on the date of settlement; and
- B. The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

112. A Federal entity shall recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.

113. A settlement occurs when a federal entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the

purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

114. In some cases, a federal entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the federal entity retains a legal or constructive obligation (see paragraph 48) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs (118-121) deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and Measurement-Plan Assets

Fair Value of Plan Assets



115. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.
116. Plan assets exclude unpaid contributions due from the federal entity to the fund, as well as any non-transferable financial instruments issued by the federal entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables.
117. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements



118. When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, a federal entity shall:
- A. Recognize its right to reimbursement as a separate asset. The federal entity shall measure the asset at fair value.
 - B. Disaggregate and recognize changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 126 and 128). The components of defined benefit cost recognized in accordance with paragraph 122 may be recognized net of amounts relating to changes in the carrying amount of the right to reimbursement.
119. Sometimes, a federal entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in this standard, are plan assets. A federal entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph 118 is not relevant (see paragraphs 48-51 and 117).

120. When an insurance policy held by a federal entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 118 is relevant to such cases: the federal entity recognizes its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 142(B) requires the federal entity to disclose a brief description of the link between the reimbursement right and the related obligation.
121. If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of Defined Benefit Cost

122. A federal entity shall recognize the components of defined benefit cost, except to the extent that another FGAAS requires or permits their inclusion in the cost of an asset, as follows:
- A. Service cost (see paragraphs 68-114) in surplus or deficit;
 - B. Net interest on the net defined benefit liability (asset) (see paragraphs 125-128) in surplus or deficit; and
 - C. Remeasurements of the net defined benefit liability (asset) (see paragraphs 129-132) in net assets/equity.
123. Other FGAASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see FGAAS 12 related to Inventory and FGAAS 17 related to Property, Plant, and Equipment). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.
124. Remeasurements of the net defined benefit liability (asset) recognized in net assets/equity shall not be reclassified to surplus or deficit in a subsequent period. However, the federal entity may transfer those amounts recognized in net assets/ equity within net assets/equity.

Net Interest on the Net Defined Benefit Liability (Asset)



125. A federal entity shall determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 85 as determined at the start of the annual reporting period. The federal entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.
126. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 66.
127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in

paragraph 85 as determined at the start of the reporting period, taking into account any changes in the plan assets held during the period resulting from contributions or benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 85 as determined at the start of the annual reporting period. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the Net Defined Benefit Liability (Asset)



129. Remeasurements of the net defined benefit liability (asset) comprise:

- A. Actuarial gains and losses (see paragraphs 130 and 131);
- B. The return on plan assets (see paragraph 132), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 127); and
- C. Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 128).

130. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

- A. Unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;
- B. The effect of changes to assumptions concerning benefit payment options;
- C. The effect or changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and
- D. The effect of changes in the discount rate.

131. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

132. In determining the return on plan assets, a federal entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 78). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset



133. A federal entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the federal entity:

- A. Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and
- B. Intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.

134. The offsetting criteria are similar to those established for financial instruments in FGAAS 28, Financial Instruments: Presentation.

Current/Non-Current Distinction

135. Assets and liabilities are presented in this Standard in the same manner as assets and liabilities included in FGAAS 1 "Presentation of Financial Statements".

Components of Defined Benefit Cost

136. Paragraph 122 requires a federal entity to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. Present service cost and net interest on the net defined benefit liability (asset) are presented in the same manner as the components of the statement of financial performance included in the FGAAS 1 "Presentation of Financial Statements".

Disclosure



137. A federal entity shall disclose information that:

- A. Explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 141);
- B. Identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 142-146); and
- C. Describes how its defined benefit plans may affect the amount, timing and uncertainty of the federal entity's future cash flows (see paragraphs 147-149).

138. To meet the objectives in paragraph 137, a federal entity shall consider all the following:

- A. The level of detail necessary to satisfy the disclosure requirements;
- B. How much emphasis to place on each of the various requirements;
- C. How much aggregation or disaggregation to undertake; and
- D. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

139. If the disclosures provided in accordance with the requirements in this Standard and other FGAASs are insufficient to meet the objectives in paragraph 137, a federal entity shall disclose additional information necessary to meet those objectives. For example, a federal entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:
- A. Between amounts owing to active members, deferred members, and pensioners.
 - B. Between vested benefits and accrued but not vested benefits.
 - C. Between conditional benefits, amounts attributable to future salary increases and other benefits.
140. A federal entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, a federal entity may disaggregate disclosure about plans showing one or more of the following features:
- A. Different geographical locations.
 - B. Different characteristics such as fixed salary pension plans, final salary pension plans or post-employment medical plans.
 - C. Different regulatory environments.
 - D. Different reporting segments.
 - E. Different funding arrangements (e.g., wholly unfunded, wholly, or partially funded).

Characteristics of Defined Benefit Plans and Risks Associated with Them



141. A federal entity shall disclose:

- A. Information about the characteristics of its defined benefit plans, including:
 - ✓ The nature of the benefits provided by the plan (e.g., final salary defined benefit plan or contribution-based plan with guarantee).
 - ✓ A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 66).
 - ✓ A description of any other federal entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.
- B. A description of the risks to which the plan exposes the federal entity, focused on any unusual, federal entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g., property, the plan may expose the federal entity to a concentration of property market risk.
- C. A description of any plan amendments, curtailments, and settlements.
- D. The basis on which the discount rate has been determined.

Explanation of Amounts in the Financial Statements



142. A federal entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

- A. The net defined benefit liability (asset), showing separate reconciliations for:
 - ✓ Plan assets.
 - ✓ The present value of the defined benefit obligation.
 - ✓ The effect of the asset ceiling.
- B. Any reimbursement rights. A federal entity shall also describe the relationship between any reimbursement right and the related obligation.

143. Each reconciliation listed in paragraph 142 shall show each of the following, if applicable:

- A. Current service cost.
- B. Interest revenue or expense.
- C. Remeasurements of the net defined benefit liability (asset), showing separately:
 - ✓ The return on plan assets, excluding amounts included in interest in (B).
 - ✓ Actuarial gains and losses arising from changes in demographic assumptions (see paragraph 78(A)).
 - ✓ Actuarial gains and losses arising from changes in financial assumptions (see paragraph 78(B)).
 - ✓ Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (B). A federal entity shall also disclose how it determined the maximum economic benefit available, i.e., whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.
- D. Past service cost and gains and losses arising from settlements. As permitted by paragraph 102, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.
- E. The effect of changes in foreign exchange rates.
- F. Contributions to the plan, showing separately those by the employer and by plan participants.
- G. Payments from the plan, showing separately the amount paid in respect of any settlements.
- H. The effects of public sector combinations and disposals.

144. A federal entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, sub-dividing each class of plan asset into those that have a quoted market price in an active market and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, a federal entity could distinguish between:

- A. Cash and cash equivalents;
- B. Equity instruments (segregated by entities type, entity size, geography etc.);
- C. Debt instruments (segregated by type of issuer, credit quality, geography etc.);
- D. Real estate (segregated by geography etc.);
- E. Derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc.);
- F. Investment funds (segregated by type of fund);
- G. Asset-backed securities; and
- H. Structured debt.

145. A federal entity shall disclose the fair value of the federal entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the federal entity.

146. A federal entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 78). Such disclosure shall be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). When a federal entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, Timing and Uncertainty of Future Cash Flows



147. A federal entity shall disclose:

- A. A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 146) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
- B. The methods and assumptions used in preparing the sensitivity analyses required by (A) and the limitations of those methods.
- C. Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

148. A federal entity shall disclose a description of any asset-liability matching strategies used by the plan or the federal entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

149. To provide an indication of the effect of the defined benefit plan on the federal entity's future cash flows, a federal entity shall disclose:

- A. A description of any funding arrangements and funding policy that affect future contributions.

- B. The expected contributions to the plan for the next reporting period.
- C. Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-Employer Plans



150. If a federal entity participates in a multi-employer defined benefit plan, it shall disclose:

- A. A description of the funding arrangements, including the method used to determine the federal entity's rate of contributions and any minimum funding requirements.
- B. A description of the extent to which the federal entity can be liable to the plan for other federal entities' obligations under the terms and conditions of the multi-employer plan.
- C. A description of any agreed allocation of a deficit or surplus on:
 - ✓ Wind-up of the plan; or
 - ✓ The federal entity's withdrawal from the plan.
- D. If the federal entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (A)-(C) and instead of the information required by paragraphs 141-149:
 - ✓ The fact that the plan is a defined benefit plan.
 - ✓ The reason why sufficient information is not available to enable the federal entity to account for the plan as a defined benefit plan.
 - ✓ The expected contributions to the plan for the next reporting period.
 - ✓ Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the federal entity.
 - ✓ An indication of the level of participation of the federal entity in the plan compared with other participating federal entities. Examples of measures that might provide such an indication include the federal entity's proportion of the total contributions to the plan or the federal entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined Benefit Plans that Share Risks Between Entities under Common Control



151. If a federal entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

- A. The contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.
- B. The policy for determining the contribution to be paid by the federal entity.

- C. If the federal entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 137-149.
- D. If the federal entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 137-139, 141, 144-146 and 149(A) and (B).

152. The information required by paragraph 151(C) and (D) can be disclosed by cross-reference to disclosures in another group federal entity's financial statements if:

- A. That group federal entity's financial statements separately identify and disclose the information required about the plan; and
- B. That group federal entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the federal entity and at the same time as, or earlier than, the financial statements of the federal entity.

Disclosure Requirements in Other FGAASs

153. Where required by FGAAS 20 related to "Related Party Disclosures", a federal entity discloses information about:

- A. Related party transactions with post-employment benefit plans; and
- B. Post-employment benefits for key management personnel.

154. Where required by FGAAS 19 related to "Provisions, Contingent Liabilities and Contingent Assets", a federal entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-Term Employee Benefits



155. Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service:

- A. Long-term paid absences such as long service or sabbatical leave;
- B. Service benefits up to 25 years or other long service benefits;
- C. Long-term disability benefits;
- D. Profit sharing and bonuses payable after 12 months or more after the end of the period in which the employee rendered the service.
- E. Deferred remuneration paid after 12 months or more after the end of the period in which it was acquired; and
- F. Compensation payable by the federal entity until an individual enters new employment.

156. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this

Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognize remeasurements in net assets/equity.

157. This Standard includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the federal entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs 57-154.

Recognition and Measurement

158. In recognizing and measuring the surplus or deficit in another long-term employee benefit plan, a federal entity shall apply paragraphs 58-100 and 115-117. A federal entity shall apply paragraphs 118-121 in recognizing and measuring any reimbursement right.



159. For other long-term employee benefits, a federal entity shall recognize the net total of the following amounts in surplus or deficit, except to the extent that another FGAAS requires or permits their inclusion in the cost of an asset:

- A. Service cost (see paragraphs 68-114 and paragraph);
- B. Net interest on the net defined benefit liability (asset) (see paragraphs 125-128); and
- C. Remeasurements of the net defined benefit liability (asset) (see paragraphs 129-132).

160. One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability.

Disclosure



161. Although this Standard does not require specific disclosures about other long-term employee benefits, other FGAASs may require disclosures. For example, FGAAS 20 related to “Related Party Disclosures” requires disclosures about employee benefits for key management personnel. FGAAS 1 related to “Presentation of Financial Statements” requires disclosure of employee benefits expense.

Termination Benefits

162. This Standard deals with termination benefits separately from other employee benefits, because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either a federal entity's decision to terminate the employment or an employee's decision to accept a federal entity's offer of benefits in exchange for termination of employment.





163. Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without a federal entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some federal entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the federal entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the federal entity is a termination benefit.

164. The form of the employee benefit does not determine whether it is in exchange provided for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

- A. Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.
- B. Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the federal entity.

165. Indicators that an employee benefit is provided in exchange for services include the following:

- A. The benefit is conditional on future service being provided (including benefits that increase if further service is provided).
- B. The benefit is provided in accordance with the terms of an employee benefit plan.

166. Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if a federal entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the federal entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from a federal entity's decision to terminate an employee's employment and are not conditional on future service being provided.

167. Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and a federal entity accounts for them as post-employment benefits.

Recognition



168. A federal entity shall recognize a liability and expense for termination benefits at the earlier of the following dates:
- A. When the federal entity can no longer withdraw the offer of those benefits; and
 - B. When the federal entity recognizes costs for a restructuring that is within the scope of FGAAS 19 and involves the payment of termination benefits.
169. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when a federal entity can no longer withdraw the offer of termination benefits is the earlier of:
- A. When the employee accepts the offer; and
 - B. When a restriction (e.g., a legal, regulatory, or contractual requirement or other restriction) on the federal entity's ability to withdraw the offer takes effect. This would be when the offer is made if the restriction existed at the time of the offer.
170. For termination benefits payable as a result of a federal entity's decision to terminate an employee's employment, the federal entity can no longer withdraw the offer when the federal entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
- A. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
 - B. The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
 - C. The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.
171. When a federal entity recognizes termination benefits, the federal entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 105).

Measurement



172. A federal entity shall measure termination benefits on initial recognition, and shall measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the federal entity shall apply the requirements for post-employment benefits. Otherwise:

- A. If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognized, the federal entity shall apply the requirements for short-term employee benefits.
- B. If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the federal entity shall apply the requirements for other long-term employee benefits.

173. Because termination benefits are not provided in exchange for service, paragraphs 72-76 relating to the attribution of the benefit to periods of service are not relevant.

Example 39.9 - Termination Benefits

Background

As a result of a recent acquisition, a federal entity plans to close a factory in 10 months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the federal entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of AED 30,000. Employees leaving before closure of the factory will receive AED 10,000.

There are 120 employees at the factory. At the time of announcing the plan, the federal entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are AED 3,200,000 (i.e., 20 x AED 10,000 + 100 x AED 30,000). As required by paragraph 163, the federal entity accounts for benefits provided for termination of employment as termination benefits and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

The benefit provided for termination of employment is AED 10,000. This is the amount that a federal entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory, or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the federal entity's decision to close the factory and terminate their employment (i.e., all employees will leave employment when the factory closes). Therefore, the federal entity recognizes a liability of AED 1,200,000 (i.e., 120 x AED 10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognizes the restructuring costs associated with the closure of the factory.

Example 39.9 - Termination Benefits**Benefits provided for service**

The incremental benefits that employees will receive if they provide services for the full ten-month period are for services provided over that period. The federal entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the reporting period. In this example, discounting is not required, so an expense of AED 200,000 (i.e., AED 2,000,000/ 10) is recognized in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

Disclosure

174. Although this Standard does not require specific disclosures about termination benefits, other FGAASs may require disclosures.

Transitional Provisions

Under the requirements of FGAAS 33 “First-time Adoption of the Accrual Basis”, a federal entity may benefit from temporary exemptions relating to defined benefit plans only during the 3-year transitional period or upon first-time adoption of this Standard. A federal entity shall recognise and measure other employee benefits at the date of the first-time adoption of this Standard. Please, refer to FGAAS 33 “First-time Adoption of the Accrual Basis” for details of temporary exemptions permitted upon first-time adoption of this Standard.

Effective Date

The provisions of these Standards shall apply after the approval of the Federal Government Accrual Accounting Standards by the UAE Council of Ministers.

Technical References

IPSAS 39 - Employee Benefits.



Section - Investments and Preparation of Consolidated Financial Statements

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Document Control

This document contains the Federal Government Accrual Accounting Standard relating to investments and preparation of consolidated financial statements of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	
Second Version	November 2020	December 2020	• Adding paragraph No. 11 related to a more detailed explanation of control in Standard 35 - Consolidated Financial Statements • Adding paragraph No. 26 related to benefits in Standard 35 - Consolidated Financial Statements • Adding paragraph No. 45 related to loss of control in Standard 35 - Consolidated Financial Statements • Adding paragraph No. 8 related to provisions and assumptions in Standard 35 - Consolidated Financial Statements • Adding paragraphs No. 17 and 18 related to the equity method procedures in Standard 36 - Investments in associates and joint ventures • Adding paragraph No. 9 related to the disclosure of information about shares in other entities / establishments in Standard 38 - Disclosure of shares in federal entities or other establishments • Adding paragraph No. 31 related to shares in structured entities/enterprises that are not unified in Standard 38 - Disclosure of shares in federal entities or other establishments • Adding paragraph No. 27 related to the accounting policies of the segment in Standard 18 - Segment Reports, accounting policies for the segment
Third Version	December 2023		• Adding Standard 34.1 "Interim Financial Statements"
Fifth Version	August 2025		Introducing updates in line with recent amendments to the standards as follow: • Amending guidance under the "Preparation of Separate Financial Statements" in Standard 34 "Separate Financial Statements" to clarify accounting for investments • Adding guidance for recognition in Standard 36 " Investments in Associates and Joint Ventures " regarding identifying the classification of investments • Adding guidance in Standard 36 " Investments in Associates and Joint Ventures " under the "Measurement - Impairment

Version	Issued on	Approved on	Comments
			Losses" regarding impairment requirements, objective evidence, and related events for associates or joint ventures • Adding guidance under the "Classification as Held for Sale" in Standard 36 " Investments in Associates and Joint Ventures " on how to account for investments in associates or joint ventures when they meet or cease to meet the criteria for classification as held for sale. • Removing guidance under the "Discontinuing the Use of the Equity Method" in Standard 36 " Investments in Associates and Joint Ventures " related to preventing the measurement of the retained interest at fair value. • Adding guidance to the scope of Standard 38 "Disclosure of Interests in Federal Entities or Other Entities" for interests classified as held for sale or discontinued operations in accordance with Standard 44 " Non-current Assets Held for Sale and Discontinued Operations".

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of the accounting standard applicable to the Federal Government with respect to investments and preparation of consolidated financial statements to be applied by a first-time adopter in order to produce fair and transparent financial statements. This Standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

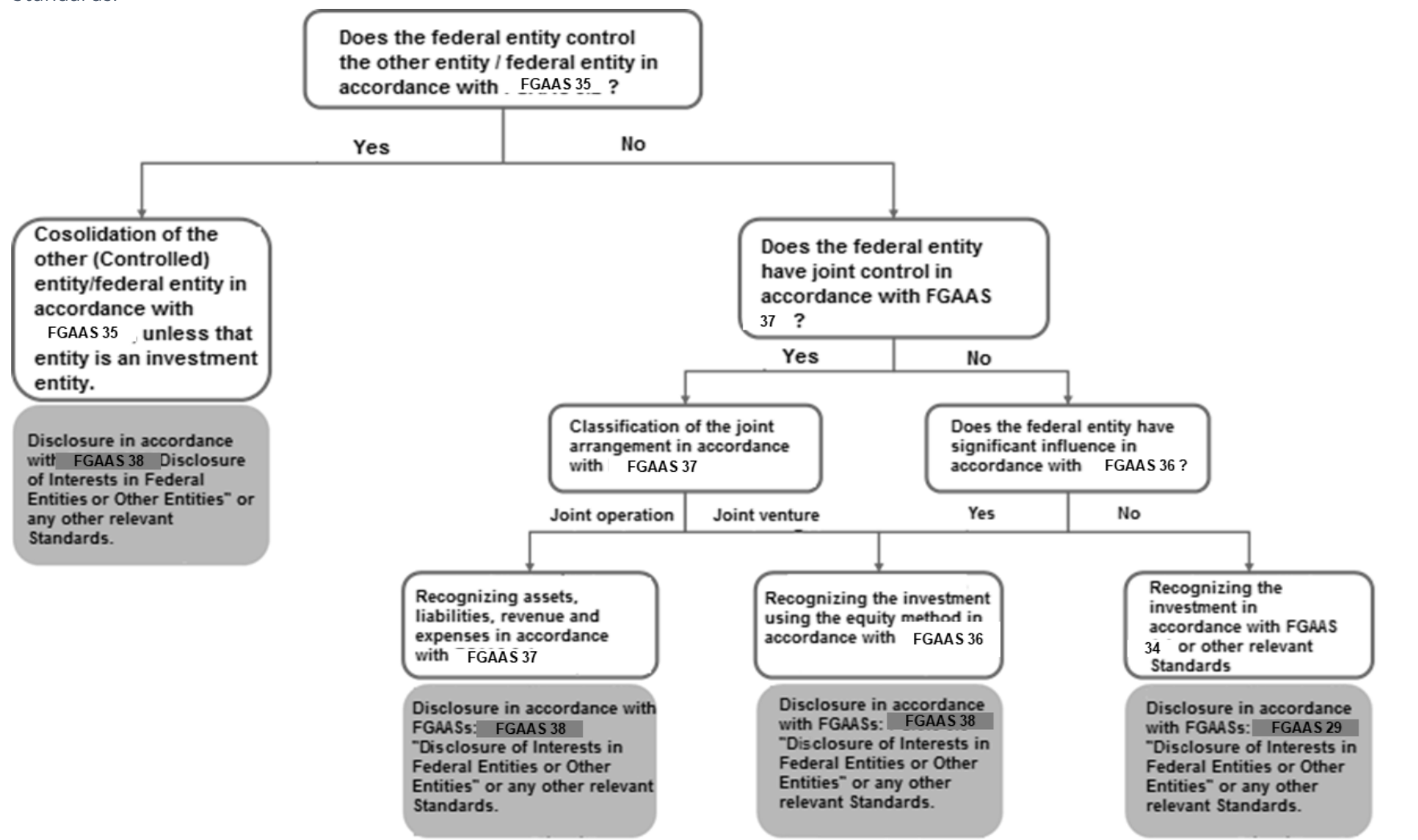
Overview of Investments and Preparation of Consolidated Financial Statements of the Federal Government

This document deals with accounting standards relating to recognition and measurement of, and disclosure requirements for, investments in controlled entities / federal entities, associates or joint arrangements, in addition to the accounting principles which a federal entity should apply when preparing high-quality separate or consolidated financial statements. This document also addresses the bases for segment reporting.

This document includes accounting standards for determining the bases for preparation and fair presentation of a federal entity's separate and consolidated financial statements, as well as its investments, by addressing the following main topics:

- A. Prescribing the requirements for recognition, measurement and disclosure of a federal entity's investments in controlled entities / federal entities, joint arrangements or associates when preparing separate financial reports, and prescribing related recognition methods;
- B. Prescribing the bases for preparation and presentation of consolidated financial statements, and the principle of control as the basis for consolidating a federal entity's financial statements;
- C. Explaining the accounting treatment and bases for recognition of investments in joint ventures and associates and bases for presenting related information, as well as determining their impact on a federal entity's financial statements;
- D. Defining common control and clarifying the bases for classifying joint arrangements and the accounting treatment of a federal entity's interests in any joint ventures or joint operations;
- E. Prescribing disclosure requirements for a federal entity's interests in other federal entities or other entities, to facilitate a better understanding of the effect of these interests on a federal entity's financial position, statement of financial performance and cash flows;
- F. Clarifying the principles for presenting financial reports and information by segment, to help users of financial statements better understand a federal entity's performance and primary activities, which would enhance transparency in the federal entity's financial reports.

The following diagram details the bases for dealing with investments and linking them to the appropriate Federal Government Accrual Accounting Standards:



Definitions



The following terms are used in this Standard in the following context:

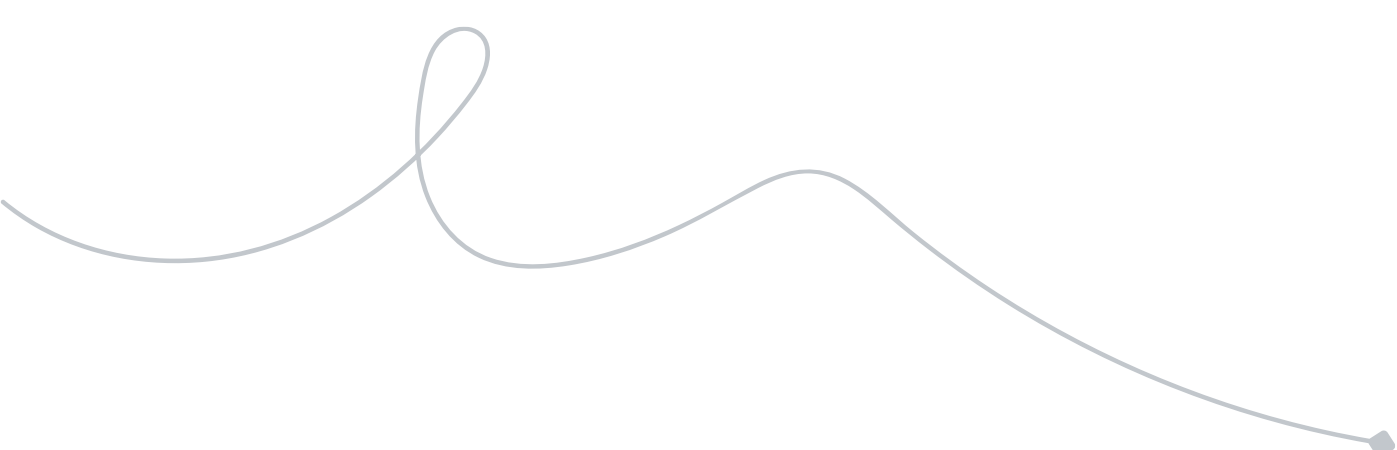
Term	Definition
Decision Maker	A federal entity with decision-making rights that is either a (principal) or an (agent) for other entities.
Segment Assets	Operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.
Relevant Activities	Activities of the controlled entity that affect the nature or amount of the benefits that the controlling entity receives from its involvement with that controlled entity.
Segment Revenue	Revenue reported in the federal entity's statement of financial performance that is directly attributable to a segment and the relevant portion of revenue that can be allocated on a reasonable basis to a segment, whether from contributions, grants, transfers, fines, fees or sales to external customers or from transactions with other segments of the same federal entity.
Revenue from a Structured Entity	Includes recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.
Separate Financial Statements	Financial statements prepared by a federal entity, in which the entity presents its investments in controlled entities / federal entities, associates and joint ventures using the equity method or at cost. Separate financial statements are identified in statements presented together with: A. The consolidated financial statements of the federal entity investing in controlled entities / federal entities; or B. The financial statements of the federal entity investing in associates; or C. The financial statements of the federal entity investing in joint ventures.
Consolidated Financial Statements	Financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

Term	Definition
Significant Influence	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in A. The policy making process; B. Material transactions between the federal entity and the other entity; C. Exchange of managerial personnel; and D. Dependence on technical information. Significant influence may be gained by ownership of interest, law or agreement to this effect.
Joint Arrangement	An arrangement under which two federal entities, or a federal entity and one or more other entities, have joint control.
Binding Arrangement	An arrangement that confers enforceable rights and obligations on the parties and ensures other legal rights, and may be established by several means (which are often but not always) in writing in the form of a contract or documented minutes between the parties. Regulatory mechanisms, such as the legislative or executive authorities, may also create a binding arrangement that is similar to contractual arrangements alone or jointly with other contracts between the parties.
Segment Liabilities	Operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.
Investment Federal Entity	A federal entity that: A. Obtains funds from investors for the purpose of providing investment management services; B. Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and C. Evaluates the performance of all of its investments on a fair value basis.
Controlling Federal Entity	A federal entity that controls one or more controlled entities / federal entities.

Term	Definition
Controlled Entity / Federal Entity	An entity / federal entity that is controlled by another entity / federal entity.
Structured Entity	An entity or federal entity in which traditional ways are not the basis for determining who controls this entity / federal entity as follows: A. In the case where administrative arrangements or legislation are the dominant factors in deciding who has control of an entity /, the entity is structured when such factors are not the dominant factors in deciding who controls the entity, but rather another factor (such as voting rights); B. In the case where voting rights are the dominant factor in deciding who has control of an entity, the entity is structured when such factor is not the dominant factor in deciding who controls the entity, but rather another factor (such as administrative arrangements and legislation).
Non-controlling Interest	Interest in the net assets and net operations results of a controlled entity / federal entity that is not attributable, directly or indirectly, to the controlling federal entity.
Interest in Other Entities / Federal Entities	Participation in binding arrangements that expose a federal entity to a group of benefits resulting from the performance of another entity. An interest in another entity may be evidenced by, but is not limited to, the holding of equity or debt instruments, the provision of funding, liquidity support, credit enhancement or guarantees. An interest in another entity includes means by which a federal entity can exercise control or joint control of, or significant influence over, another entity. A federal entity does not have an interest in another entity solely because there is a supplier-customer or funder-recipient relationship between the federal entity and that other entity.
Removal Rights	Rights to deprive the decision maker of its decision-making authority.
Protective Rights	Rights designed to protect the interest of the party holding those rights without giving power to that party.
Power	Power consists of rights that give a federal entity the current ability to direct the relevant activities of another entity / federal entity.
Control	A federal entity controls another (entity / federal entity) when the federal entity is exposed, or has rights, to variable benefits from its involvement with the other entity / federal entity and has the ability

Term	Definition
	to affect the nature or amount of those benefits through its power over that other entity / federal entity.
Joint Control	The sharing of control of an arrangement between two parties by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Party to a Joint Arrangement	Any party to a joint arrangement, regardless of whether that party has joint control with the other party or parties to the arrangement.
Equity Method	A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the federal entity's post-acquisition interest in the net assets / equity of the associate or joint venture. The investment federal entity's surplus or deficit includes its share of the investee's surplus or deficit and the investment federal entity's net assets include its share of the change in the investee's net assets / equity that has not been recognised in the investee's surplus or deficit.
Segment	Distinguishable activity or group of activities of a federal entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's performance and achievement of its objectives and for making decisions about the future allocation of resources.
Geographical Segments	A "geographical segment" is a segment that provides relevant outputs or achieves certain operating targets within a particular geographical region.
Service Segments	The "service segment" refers to the segment that provides relevant outputs or achieves certain operating targets that are consistent with the overall mission of a federal entity.
Economic Entity	The controlling federal entity and controlled entities / federal entities.
Separate Entity	Any venture, entity or federal entity resulting from a joint arrangement and has a separate financial structure, regardless of its legal capacity.
Joint Venture Participant	A party that has joint control of a joint venture.
Joint Operator	A party that has joint control of a joint operation.

Term	Definition
Joint Venture	An arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Segment Expense	Expense resulting from the operating activities of a segment that is directly attributable to the segment, or the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same federal entity.
Upstream Transactions	Transaction arising from an associate or joint venture to an investment federal entity, such as the sale of assets.
Downstream Transactions	Transactions arising from an investment federal entity to its associate or joint venture, such as the sale of assets.
Benefits	Advantages a federal entity obtains from its involvement with other entities. Benefits may be financial or non-financial.
Associate	An entity over which an investor has significant influence.
Interim period	Is a financial reporting period shorter than a full financial year.
Interim financial statements	Financial Statements containing either a complete set of financial statements (as described in FGAAS 1, "Presentation of Financial Statements") or a set of condensed financial statements (as described in this Standard) for an interim period.



Standard 34

Separate Financial

Statements

Standard 34 - Separate Financial Statements

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 34 (IPSAS 34) which provides guidance on the bases for accounting for investments when preparing separate financial statements. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to prescribe the accounting treatment, and explain primary recognition requirements, for investments in controlled entities / federal entities, associates and joint ventures.
2. This Standard primarily addresses the following topics:
 - A. The requirements for preparing separate financial statements and the bases for valuating and presenting investments in controlled entities/ federal entities, associates and joint ventures;
 - B. The necessary disclosures to be included in separate financial statements, particularly with respect to the above mentioned investments.

Scope



3. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards, as detailed in the introduction thereto, which elect, or are required by legislation, to prepare separate financial statements in accordance with the Federal Government Accrual Accounting Standards.
4. This Standard applies where a federal entity prepares separate financial standards. Therefore, this Standard does not include primary conditions for requiring a federal entity to prepare separate financial statements.
5. This Standard does not apply to federal entities the financial statements of which do not include:
 - A. Investments in controlled entities / federal entities;
 - B. Investments in joint ventures; and or
 - C. Investments in associates.
6. A federal entity may elect only to present separate financial statements if all the conditions relating to the following are satisfied:
 - A. Exemption from the presentation of separate financial statements in accordance with FGAAS 35 "Consolidated Financial Statements";
 - B. Exemption from using the equity method in accordance with FGAAS 36 "Investments in Associates and Joint Ventures".

Preparation of Separate Financial Statements



7. A federal entity shall prepare separate financial statements based on all the requirements of Federal Government Accrual Accounting Standards, while recognising similar investments in controlled entities / federal entities, joint venture and associates using the most appropriate of the following:
 - A. The equity method (FGAAS 36 - Investments in Associates and Joint Ventures); or

- B. At cost; or
- C. In accordance with FGAAS 41

The federal entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method shall be accounted for in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with FGAAS 41 is not changed in such circumstances.

8. For investment federal entities, Appendix A includes details of the conditions and controls relating to the preparation of separate financial statements by such entities.
9. When preparing separate financial statements, a federal entity (that is not an investment federal entity) which controls an investment federal entity, shall account for investments resulting from its control of the investment federal entity based on the same principles set out in Appendix A to FGAAS 35 "Consolidated Financial Statements".
10. When a controlling federal entity becomes, or ceases to be, an investment federal entity, it shall recognise the effect of the change at the date on which the change occurred, as follows:
 - A. When a federal entity ceases to be an investment entity, it shall recognise an investment in accordance with the requirements of paragraph 7 of this Standard. The date of the change shall be the "deemed acquisition date". The fair value of the investment shall be the deemed value at the deemed acquisition date that shall be used for the requirements of paragraph 7;
 - B. When a federal entity becomes an "investment federal entity", it shall recognise an investment at fair value through surplus or deficit in accordance with FGAAS 41 "Financial Instruments" (by reference to Appendix A to this Standard). The difference between the carrying amount of the investment and its fair value at the date of the change shall be recognised in the statement of financial performance. Any cumulative (gain or loss) amounts previously recognised in a separate item of net assets in the statement of financial position for the period in which the change occurred.
11. A federal entity shall recognise dividends or similar distributions from controlled entities, associates and joint ventures in the separate financial statements of an entity when they accrue. A dividend shall be recognised in the federal entity's statement of financial performance unless the entity adopts the equity method where these dividends are recognised as a reduction from the carrying amount of the investment.
12. When a controlling federal entity restructures the group (economic entity) by establishing a new federal entity as its controlling entity that satisfies the following conditions:
 - A. The new federal entity obtains control of the controlling federal entity by:
 - ✓ Issuing equity instruments (shares) in exchange for net assets instruments of the controlling federal entity (as applicable);
 - ✓ Other mechanisms which result in the new federal entity having control of the controlling federal entity;



- B. The group that existed before the restructuring and the group that resulted from the establishment of the new federal entity include the same assets and liabilities;
- C. The parties controlling the group have the same absolute and relative interests in the net assets of the group before and after the restructuring.

In this case, the newly established federal entity (new controlling federal entity) shall recognise investments in the previous controlling federal entity at cost (by reference to subparagraph 7 (B)).

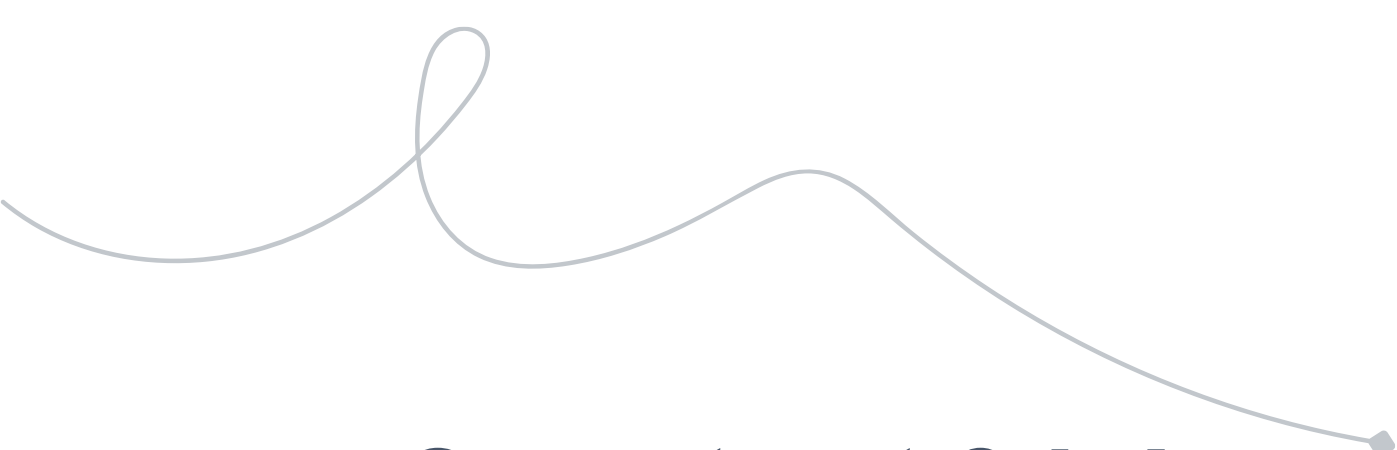
Disclosures



13. When providing disclosures in separate financial statements, a federal entity shall apply all the requirements of Federal Government Accrual Accounting Standards, in addition to the disclosures prescribed in paragraphs 14 and 15 of this Standard.
14. When a controlling federal entity uses the exemption provided for in FGAAS 35 "Consolidated Financial Statements, by electing not to prepare consolidated financial statements and prepares separate financial statements, it shall disclose:
 - A. The fact that the financial statements prepared are "separate financial statements", that the federal entity has used exemption from preparing consolidated financial statements, the name of the federal entity that has prepared the consolidated financial statements for public use and the address where those consolidated financial statements are obtainable;
 - B. A list of significant investments in controlled entities / federal entities, associates and joint ventures, including:
 - ✓ The names of those controlled entities / federal entities, associates and joint ventures;
 - ✓ The jurisdiction in which those controlled entities / federal entities, associates and joint ventures operate (if it is different from that of the controlling federal entity);
 - ✓ The proportion of the federal entity's ownership interest held in those investments and a description of the bases adopted in determining this proportion.
 - C. A description of the method used to recognise the investments above.
15. For a federal entity (other than an investment federal entity) that controls an investment federal entity that is required to account for investments at fair value through surplus or deficit in a manner that is consistent with the principles followed in preparing consolidated financial statements (by reference to Appendix A to FGAAS 35 "Consolidated Financial Statements"), such an entity shall disclose this fact in its separate financial statements and shall apply the disclosure requirements prescribed in FGAAS 38 "Disclosure of Interests in Other Entities".

Appendix A - Controls on the Preparation of Separate Financial Statements of Investment Federal Entities

1. Under the requirements set out in Appendix A to FGAAS 35 “Consolidated Financial Statements”, investment federal entities are not required to consolidate investments, but rather to recognise and measure them at fair value in accordance with the requirements of FGAAS 41 “Financial Instruments”.
2. Therefore, when an investment federal entity measures investments at fair value through surplus or deficit (by reference to FGAAS 41 “Financial Instruments”), it shall account for these investments using the same method as for preparing separate financial statements.
3. With respect to disclosures, when an investment federal entity prepares only separate financial statements (without preparing consolidated financial statements), it shall disclose this fact and shall apply the disclosure requirements set out in FGAAS 38 “Disclosure of Interests in Other Entities”.



Standard 34.1 - Interim Financial Statements

Standard 34.1 - Interim Financial Statements

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Accounting Standard 34 (IAS 34). It is worth mentioning that certain text of standard 34 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this standard is to prescribe the minimum content of interim financial statements and to define the principles of recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial statements improves the ability of users to understand a federal entity's financial performance and cash flows and its financial condition and liquidity.

Scope



2. This Standard applies to federal entities covered by the Manual of Accrual Basis FGAAS as detailed in the Introduction thereto. In accordance with Ministerial Resolution No. (136) of 2023 regarding the periodicity of financial reports for federal government entities, the federal entities shall submit their financial statements on a periodic and quarterly basis to the Ministry of Finance.
3. Each financial statement, annual or interim, is evaluated on its own for conformity to FGAASs. The fact that a federal entity may not have provided interim financial statements during a particular financial year or may have provided interim financial statements that do not comply with this Standard does not prevent the federal entity's annual financial statements from conforming to FGAASs if they otherwise do so.
4. If interim financial statements are described as complying with FGAASs, it must comply with all of the requirements of this Standard.

Form and Content of Interim Financial Statements



5. The interim financial statements include the following minimum components:
 - ✓ A condensed statement of financial position;
 - ✓ A condensed statement of financial performance;
 - ✓ A condensed statement of changes in net assets/equity;
 - ✓ A condensed statement of cash flows;
 - ✓ A statement of comparison between the budget amounts and the actual amounts; and
 - ✓ Selected notes, comprising significant accounting policies and other explanatory information.
6. If a federal entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.
7. If the most recent annual financial statements of the federal entity were consolidated statements, then the interim financial statements are prepared on a consolidation basis. the parent's separate financial statements are not consistent or comparable with the consolidated statements in the most recent annual financial report. If a federal entity's



financial report includes the separate financial statements of the controlling entity in addition to the consolidated financial statements, the separate statements of the controlling entity are also included in the interim financial statements of the federal entity.

8. In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, a federal entity may provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.
9. Nothing in this Standard is intended to prohibit or discourage a federal entity from publishing a complete set of financial statements as described in FGAAS 1, "Presentation of Financial Statements" in its interim financial report, rather than condensed financial statements and selected explanatory notes. Nor does this Standard prohibit or discourage a federal entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement guidance in this Standard applies also to complete financial statements for an interim period, and such statements would include all of the disclosures required by this Standard as well as those required by other FGAASs.
10. If a federal entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of FGAAS 1, "Presentation of Financial Statements".



Form and Content of Interim Financial Statements - Significant Events and Transactions



11. The federal entity shall include in its interim financial statements an explanation of events and transactions that are significant to an understanding of the changes in the entity's financial position and performance since the end of the last annual reporting period. Information disclosed in connection with such events and transactions shall update the relevant information presented in the most recent annual report.
12. It is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual report.



13. The following events and transactions are disclosed if they are significant, and this list is not exhaustive:
 - A. Write-down of inventory to its net realizable value and reversal of such write-down;
 - B. Recognition of a loss arising from the impairment of financial assets, property, plant, and equipment, intangible assets, or other assets, and the reversal of any such impairment loss;
 - C. Reversal of any provisions for the costs of restructuring;

- D. Acquisition and disposal of items of property, plant and equipment;
 - E. Commitments for the purchase of property, plant and equipment;
 - F. Litigation settlements;
 - G. Correction of prior period errors;
 - H. Changes in business or economic conditions that affect the fair value of the entity's financial assets and liabilities, whether those assets or liabilities are recorded at fair value or at amortized cost;
 - I. Any loan default or any breach of a loan agreement that has not been remedied on or before the end of the reporting period
 - J. Related party transactions;
 - K. Changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
 - L. Changes in contingent liabilities or contingent assets.
14. Individual FGAASs provide guidance regarding disclosure requirements for many of the items listed in paragraph 13. When an event or transaction is significant to an understanding of the changes in a federal entity's financial position or performance since the last annual reporting period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual reporting period.

Form and Content of Interim Financial Statements - Other Disclosures



15. In addition to disclosing the significant events, the federal entity shall include the following information in the notes attached to its interim financial statements. The information shall be reported on a financial year to date basis:
- A. A statement that the same accounting policies and methods of computation are followed in the interim financial statements as were followed in the most recent annual financial statements; or a description of the nature and impact of the change if those policies and methods are changed.
 - B. Explanatory comments about seasonality or cyclicity of interim operations.
 - C. The nature and amount of items affecting assets, liabilities, net assets/equity, surplus or deficit, or cash flows that are unusual because of their nature, size, or incidence.
 - D. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year, or changes in estimates of amounts reported in prior financial years.
 - E. The following segment information:
 - ✓ The revenues of each segment to be reported from budget appropriations or similar allocations.
 - ✓ Revenues of each segment to be reported from other external sources.

- ✓ The revenues of each segment to be reported from transactions with other segments within the entity.
 - ✓ Expenditures of each segment to be reported.
 - ✓ The carrying amount of the assets of each segment to be reported.
 - ✓ The carrying amount of the liabilities of each segment to be reported.
 - ✓ A description of the differences in the basis for segmentation to be reported.
 - ✓ Reconciliation of the disclosed information to the segments and aggregated information appearing in the financial statements. When displaying the reconciliation, segment revenues must be reconciled with the entity's revenue from external sources (including disclosure of the amount of the entity's revenue from external sources not included in any segment revenue), segment expenditures must be reconciled to a comparable measure of entity's expenditures, and segment assets must be reconciled to the entity's assets, and the segment liabilities must be reconciled to the entity's liabilities.
- F. Material events subsequent to the end of the interim period that have not been reflected in the interim financial statements.
- G. The effect of changes in the composition of the federal entity during the interim period, including business combinations in the public sector, obtaining or losing control of subsidiaries and long-term investments, restructurings and discontinued operations; and in the case of business combinations, the federal entity must disclose the information required under the "Business Combinations" standard.
- H. For financial instruments, disclosures of the fair value of financial instruments as required by the "financial instruments" standard.
- I. The disclosures required under the "Disclosure of Interests in Other Entities" standard for entities that become, or cease to be, investment entities, as defined in the "Consolidated Financial Statements" standard.
- J. The breakdown of revenue from exchange transactions according to the "Revenue from Exchange Transactions" standard, and the breakdown of revenue from non-exchange transactions according to the "Revenue from Non-Exchange transactions" standard.
- K. For federal entities that present a comparison between budget amounts and actual amounts, an estimate of budget amounts for the period from the beginning of the current financial year to date, and the bases on which to allocate annual budget amounts for the period from the beginning of the current financial year to date, in addition to the disclosures required under the "Presentation of Budget Information in Financial Statements" policy.

Form and Content of Interim Financial Statements - Disclosure of Compliance with the Federal Government Accrual Accounting Standards.



16. Where an interim financial report has been prepared in accordance with the requirements of “Interim Financial Statements” standard for the federal government, that fact should be disclosed by the federal entity. An interim financial report should not be described as complying with Federal Government Accrual Accounting Standards unless it complies with all of the requirements of Federal Government Accrual Accounting Standards.

Form and Content of Interim Financial Statements - Periods Required to be Presented.



17. The interim financial statements (condensed or complete) for the periods shall include the following:
- A. Statement of financial position as at the end of the current interim period and a comparative statement of financial position as at the end of the immediately preceding financial year.
 - B. Statement of financial performance for the current interim period and cumulatively for the current financial year to date, with financial performance for the comparative interim periods (current and from the beginning of the year-to-date) of the immediately preceding financial year.
 - C. Statement of changes in net assets/equity cumulatively from the beginning of the current financial year-to-date, with a comparison statement for the comparative period from the beginning of the year-to-date of the immediately preceding financial year.
 - D. Statement of cash flows cumulatively from the beginning of the current financial year-to-date, with a comparative statement for the comparative period from the beginning of the year-to-date of the immediately preceding financial year.
 - E. Comparison of budget and actual amounts for the period from the beginning of the current financial year-to-date in a separate supplementary financial statement. Information relating to the comparative period (from the beginning of the year-to-date of the immediately preceding financial year) is not required to be presented.
18. A federal entity whose business is highly seasonal may disclose financial information relating to the twelve months up to the end of the interim period, and comparative information for the equivalent twelve-month period in the prior year, in addition to information required previously.



Example 34.1.1 - A federal Entity that Publishes Quarterly Interim Financial Statements

The financial year of a federal entity ends on December 31. The federal entity will present the following financial data (condensed) in its quarterly interim financial report (for the second quarter) as on 30 June 2021.

Statement of Financial Position:

As of:

30 June 2021	31 December 2020
--	--

Statement of Financial Performance

For six months ended on

30 June 2021	30 June 2020
--	--

Statement of Cash Flows:

For six months ended on

30 June 2021	30 June 2020
--	--

Statement of Changes in Net Assets/Equity:

For six months ended on

30 June 2021	30 June 2020
--	--

Statement of Comparison between Budget and Actual Amounts:

The budget is prepared on a cash basis and covers a full financial year and is classified according to the functional classification, while the interim financial statements are prepared in accordance with the FGAASs:

Statement	The original annual budget amounts for the financial year ending 31 December 2021	Annual budget amounts for the financial year ending on 31 December 2021 after any approved amendments	Estimated annual budget amounts for the six months ending 30 June 2021	Actual amounts for the six months ended 30 June 2021 on a comparative basis	Differences between budget and actual amounts for the six months ended 30 June 2021
Receipts					
Payments					

Form and Content of Interim Financial Statements - Materiality



19. In deciding how to recognize, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. In making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.
20. The “Presentation of Financial Statements” standard requires the disclosure of material items separately including (for example) discontinued operations, and as in the “Accounting Policies and Changes in Accounting Estimates and Errors” standard, the disclosure of changes in accounting estimates, errors and changes in accounting policies. Both standards do not contain quantitative guidelines regarding materiality.
21. Recognition and disclosure decisions are based on an assessment of materiality with respect to the data for the same interim period. For example, unusual items, changes in accounting policies or estimates, and errors are recognized and disclosed on a materiality basis in relation to the interim period data to avoid misleading conclusions that might result from non-disclosure. The primary objective is to ensure that the interim financial statements include all information appropriate to understand the entity’s financial position and performance during the interim period.

Disclosure in Annual Financial Statements



22. If during the final interim period of a financial year there has been a significant change in the estimate of an amount reported in an earlier interim period, but a separate financial report has not been published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note attached to the annual financial statements.
23. The “Accounting Policies, Changes in Accounting Estimates, and Errors” standard requires disclosure of the nature (and amount, if possible) of a change in an estimate that has either a material effect in the current period or is expected to have a material effect in subsequent periods. The “Form and Content of the Interim Financial Statements - Other Disclosures” section of this standard requires a similar disclosure in the interim financial statements.
24. Examples include changes in estimates in the closing interim period:
 - A. Inventory write-downs,
 - B. Restructurings, or
 - C. Impairment losses reported in an earlier interim period of the financial year.
25. The disclosure required under the “Accounting Policies, Changes in Accounting Estimates, and Errors” standard is consistent with change in estimates disclosure. The federal entity is not required to include additional financial information for the interim period in its annual financial statements.

Recognition and Measurement - Applying the Accounting Policies as in the Annual Financial Statements



26. A federal entity shall apply the same accounting policies in its interim financial statements as they are applied in its annual financial statements, except for changes in accounting policies that are made after the date of the most recent annual financial statements, which will be reflected in the following annual financial statements. Despite this, the cyclicity of the entity's report (semiannually) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes must be made on a year-to-date basis.
27. Requiring that a federal entity apply the same accounting policies in its interim financial statements as in its annual statements may seem to suggest that interim period measurements are made as if each interim period stands alone as an independent reporting period. However, by providing that the frequency of a federal entity's reporting shall not affect the measurement of its annual results, standard requirements acknowledges that an interim period is a part of a larger financial year. Year-to-date measurements may involve changes in estimates of amounts reported in prior interim periods of the current financial year. But the principles for recognising assets, liabilities, income, and expenses for interim periods are the same as in annual financial statements. To illustrate:
- A. The principles for recognising and measuring losses from inventory write-downs, restructurings, or impairments in an interim period are the same as those that a federal entity would follow if it prepared only annual financial statements. However, if such items are recognised and measured in one interim period and the estimate changes in a subsequent interim period of that financial year, the original estimate is changed in the subsequent interim period either by accrual of an additional amount of loss or by reversal of the previously recognised amount;
 - B. A cost that does not meet the definition of an asset at the end of an interim period is not deferred in the statement of financial position either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within a financial year.
28. Under the Conceptual Framework for Financial Reporting (Conceptual Framework), recognition is the 'process of capturing, for inclusion in the statement of financial position or the statement(s) of financial performance, an item that meets the definition of one of the elements of the financial statements. The definitions of assets, liabilities, income, and expenses are fundamental to recognition, at the end of both annual and interim financial reporting periods.
29. For assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify at interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.



30. An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised; otherwise they are not recognised. Otherwise, they are not recognized, and the Conceptual Framework requires that “an expense is recognized in the statement of financial performance when the future economic benefits associated with a decrease in an asset or an increase in a liability decrease and can be measured reliably”. The Conceptual Framework does not allow the recognition of items in the statement of financial position which do not meet the definition of assets or liabilities.
31. In measuring the assets, liabilities, income, expenses, and cash flows reported in its financial statements, a federal entity that reports only annually is able to take into account information that becomes available throughout the financial year. Its measurements are, in effect, on a year-to-date basis.
-  32. A federal entity that reports half-yearly uses information available by mid-year or shortly thereafter in making the measurements in its financial statements for the first six-month period and information available by year-end or shortly thereafter for the twelve-month period. The twelve-month measurements will reflect possible changes in estimates of amounts reported for the first six-month period. The amounts reported in the interim financial report for the first six-month period are not retrospectively adjusted. The Standard requires, however, that the nature and amount of any significant changes in estimates be disclosed.
33. A federal entity that reports more frequently than half-yearly measures income and expenses on a year-to-date basis for each interim period using information available when each set of financial statements is being prepared. Amounts of income and expenses reported in the current interim period will reflect any changes in estimates of amounts reported in prior interim periods of the financial year. The amounts reported in prior interim periods are not retrospectively adjusted. The Standard requires, however, that the nature and amount of any significant changes in estimates be disclosed.

Recognition and Measurement - Seasonal, Cyclical or Occasional Revenues

-  34. Revenues that are received seasonally, cyclically or occasionally within a financial year should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate for the federal entity at the end of the financial year.
35. Examples include dividends and royalty fees. In addition, some federal entities consistently earn more revenue in certain interim periods of the financial year than in other interim periods. Such revenue is recognized when it is incurred.



Example 34.1.2 - Seasonal, Cyclical or Occasional RevenuesMajor planned periodic maintenance or overhaul

The cost of a planned major periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the year is not anticipated for interim reporting purposes, unless an event has caused the federal entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

Recognition and Measurement - Uneven Costs during the Financial Year

36. Costs that are incurred unevenly during a federal entity's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

**Example 34.1.3 - Uneven Costs during the Financial Year**Year-end Bonuses

The nature of year-end bonuses varies widely. Some are earned simply by continued employment during a time period. Some bonuses are earned based on a monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent.

A bonus is anticipated for interim reporting purposes if:

- A. The bonus is a legal obligation, or past practice would make the bonus a constructive obligation and the entity has no realistic alternative but to make the payments; and
- B. A reliable estimate of the obligation can be made.

Recognition and Measurement - Use of Estimates

37. Measurement procedures used in interim financial reports shall be designed to ensure that the produced information is reliable, with all material relevant financial information being appropriately disclosed for understanding the financial position, or the federal entity's performance. It nevertheless acknowledges that, while reasonable estimates are often used for both annual and interim financial reports, interim reports generally will require a greater use of estimation methods than annual financial reports.



Example 34.1.4 - Use of Estimates**Inventories**

Full inventory counts and valuation procedures may not be required for inventories at interim dates, although it may be done at financial year end. It may be sufficient to make estimates at interim dates based on sales margins.

Classifications of current and non-current assets and liabilities:

Federal entities may do a more thorough investigation for classifying assets and liabilities as current or non-current at the end of annual reporting periods than at interim dates.

Provisions

Determination of the appropriate amount of a provision (such as a provision for warranties, environmental costs, and site restoration costs) may be complex and often costly and time-consuming. Federal entities sometimes engage outside experts to assist in the annual calculations.

Restatement of Previously Reported Interim Periods

38. A change in accounting policy should be reflected by:

- A. Restating the financial statements of prior interim periods of the current financial year, and the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with “Accounting Policies, Changes in Accounting Estimates, and Errors” Standard; or
- B. When it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years, to apply the new accounting policy prospectively from the earliest date practicable.

39. One objective of the preceding principle is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. Under “Accounting Policies, Changes in Accounting Estimates, and Errors” standard, a change in accounting policy is reflected by retrospective application, with restatement of prior period financial data as far back as is practicable. However, if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then the new policy is applied prospectively from the earliest date practicable. The effect of the principle in paragraph above is to require that within the current financial year any change in accounting policy is applied either retrospectively or, if that is not practicable, prospectively, from no later than the beginning of the financial year. Accounting changes shall not be applied from an interim date during the financial year.

40. To allow accounting changes to be reflected as of an interim date within the financial year would allow two differing accounting policies to be applied to a particular class of transactions within a single financial year. The result would be interim allocation difficulties,

obscured operating results, and complicated analysis and understandability of interim period information.

Transitional Provisions

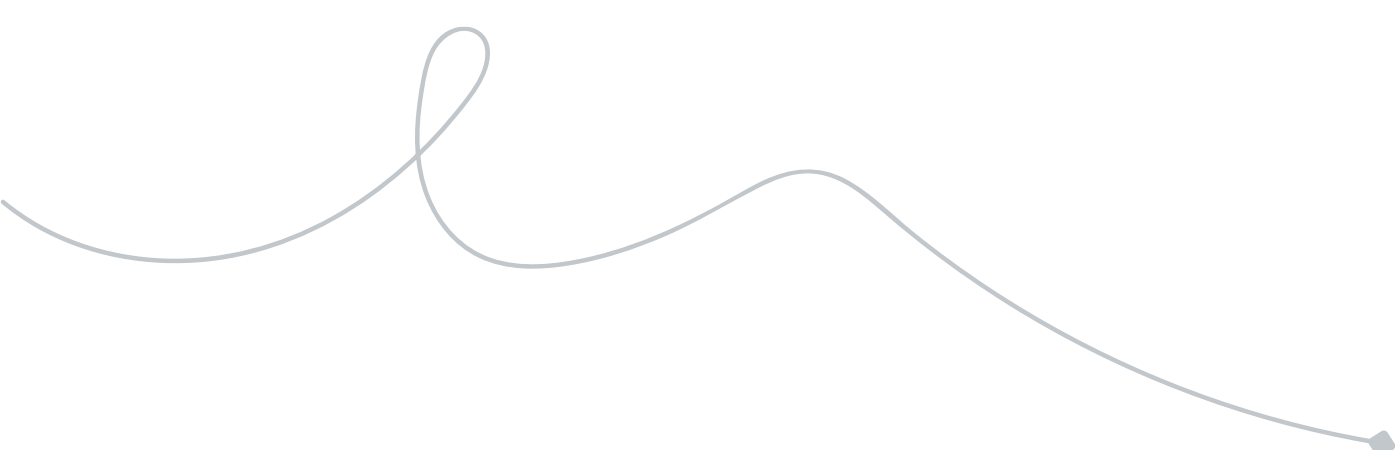
A federal entity shall apply this Standard prospectively when preparing Interim Financial Statements.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers. And In accordance with Ministerial Resolution No. (136) of 2023 regarding the periodicity of financial reports for federal Government entities. A federal entity shall apply this Standard for Interim financial statements covering periods beginning on or after January 1, 2023.

Technical References

IAS 34- Interim Financial Statements.



Standard 35 - Consolidated Financial Statements

Standard 35 - Consolidated Financial Statements

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 35 (IPSAS 35) which prescribes the bases for consolidating financial statements. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to prescribe the bases for the preparation and presentation of consolidated financial statements when a federal entity controls one or more other entities/ federal entities.
2. This Standard addresses the following topics relating to consolidated financial statements:
 - A. Defining the principle of control and establishing control as the basis for consolidating financial statements;
 - B. How to apply the principle of control to determine whether a federal entity has control and therefore must consolidate its financial statements;
 - C. Accounting requirements for the preparation of consolidated financial statements;
 - D. Defining an investment federal entity and establishing an exception to consolidating particular controlled entities / federal entities (Appendix A).

Scope

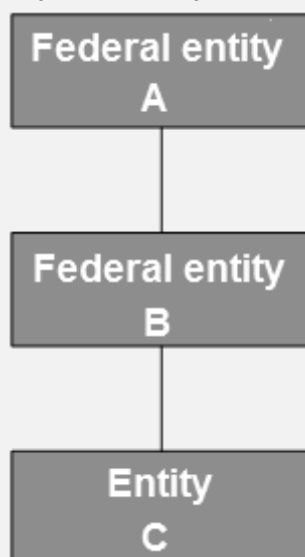


3. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards, as detailed in the introduction thereto, which prepare and present consolidated financial statements, with the exception of those controlling federal entities which are not required to present consolidated financial statements where all the following conditions are satisfied:
 - A. If the controlling federal entity is also controlled by an ultimate controlling federal entity, and the financial information needs of users of financial statements are met by the ultimate controlling federal entity's consolidated financial statements;
 - B. If the controlling federal entity's financial instruments are not traded in a public financial market;
 - C. If the federal entity has not registered its financial statements with, nor have its financial statements been approved by, any securities commission or market;
 - D. If the ultimate or intermediate controlling entity presents financial statements that are publicly available in accordance with Federal Government Accrual Accounting Standards, where controlled entities / federal entities are consolidated.
 - E. Also excluded from the application of the provisions of this standard are the federal entities of a commercial and for-profit nature with a legal personality, for which the entity controlling these entities must apply the requirements of the equity method contained in Standard 36 "Investment in Associates and Joint Ventures" in accordance with paragraphs 10-25.
4. The exemption from preparing consolidated financial statements in paragraph 3 does not apply where the needs of users of a controlling federal entity's information are not met by the consolidated financial statements of the ultimate controlling federal entity. For example,

consolidated financial statements at federal government level may not meet the needs of users of information with respect to certain sectors or activities of a federal entity.

Example 35.1 - Exemption from Preparing Consolidated Financial Statements

Federal entity A controls federal entity B and Entity C as in the following diagram:



- ✓ Federal entity A controls federal entity B, and federal entity B controls entity C;
- ✓ Federal entities A and B have not registered their financial statements with, nor have their financial statements been approved by, a securities commission or market, nor any of their instruments are traded in financial markets;
- ✓ Federal entity A prepares its consolidated financial statements in accordance with this Standard and presents them to the public via its website.

Where federal entity A does not require its controlled federal entity B to prepare consolidated financial statements, and all the owners of federal entity B (in this example, federal entity A only) agree not to prepare consolidated financial statements for federal entity B, federal entity B shall not be required to prepare consolidated financial statements.

5. This Standard does not apply to long-term employee benefits to which FGAAS 39 “Employee Benefits” applies.
6. FGAAS 41 “Financial Instruments” shall not be applied to financial instruments that entail potential voting rights or other rights of a controlled entity / federal entity.
7. A federal entity that is classified as an investment entity is not required to present consolidated financial statements if it measures its controlled entities at fair value through surplus or deficit in accordance with this Standard (Appendix A).



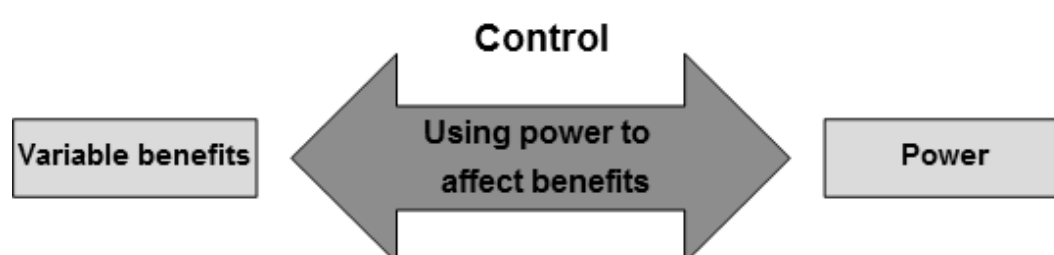
Control



8. A federal entity controls another entity / federal entity when it has rights to, or is exposed to, variable benefits from its involvement with the other entity / federal entity and has the ability

to affect the nature and amount of those benefits through its power over the entity / federal entity concerned.

9. A federal entity has control if, and only if, all the following conditions are satisfied:
 - A. It has power over the other entity / federal entity, see paragraph 13;
 - B. It has rights, or is exposed, to variable benefits from its involvement with the other entity/ federal entity, see paragraph 27;
 - C. It has the ability to use its power over the other entity / federal entity to significantly affect the nature or amount of the benefits from its involvement with the other entity/ federal entity.



10. A federal entity shall consider all facts and circumstances when assessing whether it controls another entity / federal entity. Control shall be reassessed if facts and circumstances indicate that there are changes to one or more of the three conditions for control listed in paragraph 9.
11. Two or more entities collectively control another federal entity when they must act together to direct the relevant activities. In such cases, because no single entity can direct the activities without the co-operation of the others, no single entity controls the other entity. Each entity would account for its interest in the other entity in accordance with the relevant FGAASs, such as (FGAAS 36 - "Investments in associates and joint ventures" and FGAAS 37 - "Joint arrangements")
12. In determining control of another entity / federal entity, a federal entity may consider the following factors:
 - A. The purpose and design of the other entity / federal entity;
 - B. The nature of relevant activities and how decisions about those activities are made;
 - C. Whether the rights of the federal entity give it the ability to substantially direct and affect the activities of the other entity / federal entity;
 - D. Whether the federal entity has rights, or is exposed, to variable benefits from its involvement with the other entity / federal entity;
 - E. The federal entity's ability to use its power over the other entity / federal entity to affect the nature or amount of the benefits received by that federal entity.

Power



13. A federal entity has power over another entity / federal entity when it has the rights to direct relevant activities; that is activities which substantially affect the nature or amount of benefits received by that federal entity from its involvement with the entity / federal entity concerned.



Example 35.2 - Examples of Relevant Activities

Relevant activities depend on the nature of the concerned entity's / federal entity's work, and may include, for example:

- A. Sale and purchase of goods and services;
- B. Collection of revenue from non-exchange transactions;
- C. Management of financial assets;
- D. Acquisition and sale of assets;
- E. Financing activities;
- F. Research and development.

14. A federal entity's right to direct the financial and operating policies of another entity / federal entity indicates that it has the ability to control the relevant activities of the entity / federal entity concerned.
15. Normally, power arises from rights. In some cases, determining power is straightforward, (such as when a federal entity's power is obtained from voting rights resulting from holding shares in an entity). A federal entity may also establish power through binding arrangements. Such arrangement may include a federal entity's right to control the assets or liabilities of the other entity / federal entity, which may affect the nature or amount of benefits received by the federal entity. The assessment of rights arising from such binding arrangements may be more complex and require several factors to be considered when determining the existence of power.



Example 35.3 - Examples of Rights That Give Rise to Power

Following are examples of rights that may give rise to power:

- A. Rights to direct the administration body of another entity, thus enabling control of the activities of that other entity;
- B. Voting rights through which the activities of an entity / federal entity can be controlled;
- C. Rights to appoint and change key management personnel who have the authority and responsibility to direct relevant activities;

Example 35.3 - Examples of Rights That Give Rise to Power

- D. Rights to object to major changes in the other entity / federal entity, such as the sale of principal assets.



16. In assessing whether it has power, a federal entity shall consider only substantive rights. Rights are substantive if their holder has the practical ability to exercise them.
17. A federal entity that has the right to substantially control relevant activity has power over the entity / federal entity concerned, even if such right is not exercised.

**Example 35.4 - Examples of Relevant Activities**

A federal entity has the right to appoint and change the majority of the members of the senior management of another entity who have the authority and responsibility to direct that entity's relevant activities. The federal entity has used similar rights with similar entities in the past, but has not used them with this particular entity because it does not want to interfere with its activities for the time being.

Although the federal entity elected not to use these rights, they are substantive and the federal entity has power over the entity concerned.

18. A federal entity can have power over another entity / federal entity even if it does not have responsibility for the day-to-day operation of the other entity / federal entity or the manner in which prescribed functions are performed by that other entity / federal entity. Legislation may give some federal entities statutory rights to carry out their functions independently. The existence of statutory rights to operate independently does not, of itself, preclude a federal entity from having the ability to direct the financial and operating policies of the entity / federal entity with statutory powers so as to obtain benefits.
19. The existence of rights over another entity / federal entity does not necessarily give rise to power for the purposes of this Standard. Sole existence of any of the following factors alone shall not establish power over the entity / federal entity concerned:
 - A. Regulatory control; or
 - B. Economic dependence.
20. Regulatory control does not usually give rise to power over an entity for the purposes of this Standard. Some other federal entities may have wide ranging powers to establish a regulatory framework and impose conditions or sanctions on entities operating within that regulatory frame work (for example, introducing legislation to protect the health and safety of the community, prohibit the sale or use of dangerous goods or set the pricing policies of certain segments). However, when regulation controls how the entity performs its business, then it may be necessary to consider whether the purpose and design of that entity is such that it is a controlled entity.



Example 35.5 - Example of Regulatory Control

An environment protection federal entity has the power to stop the activities of, and close, all entities that do not comply with environment protection laws and requirements. The existence of this type of power does not constitute power over relevant activities, nor power for the purposes of this Standard.

21. Economic dependence, in itself, does not give rise to power as defined in this Standard. An entity / federal entity may be considered economically dependent when:
- A. It has single major client and the loss of that client could affect the continuity of the entity's / federal entity's operations;
 - B. Its activities are exclusively funded by donations and grants, and the majority those donations and grants come from a single entity.

**Example 35.6 - Example of Economic Dependence**

A federal entity provides funding to several entities by means of a tender in which entities submit their proposals to the federal entity. These entities receive most of their funding from the federal entity, but have the right to either accept or refuse the funding. In this case, the federal entity does not control these entities because they can refuse the funding, look for other sources of funds or cease operating.

22. Where more than one federal entity has rights to direct the relevant activities of another entity, power shall be established for the federal entity with the rights to direct activities that most substantially affect the nature or amount of benefits received from that entity.
23. When assessing control, a federal entity may have power over another entity even if other parties (with rights in the entity) have rights that allow them to participate in directing the relevant activities of the entity concerned. On the other hand, a federal entity that holds only protective rights shall not be regarded as having power and, therefore, does not control the entity concerned.

**Example 35.7 - Examples of Protective Rights**

Examples of protective rights include:

- A. The right of a lending federal entity to prevent the borrowing entity / federal entity from performing activities that have a substantially adverse impact on credit risk.
- B. The right of a federal entity with a non-controlling interest in another entity to approve capital expenditure out of ordinary scope of work, or approve the issuance of financial instruments.

Example 35.7 - Examples of Protective Rights

- C. The right of a lending federal entity to acquire the assets of the borrower if the borrower does not comply with loan repayment terms.
- D. The right to appoint and change members of the administrative body of another entity / federal entity.

Benefits

24. When assessing control, a federal entity shall be regarded as being exposed, or having rights, to variable benefits when the benefits it seeks from its involvement with another entity / federal entity may change depending on the performance of that other entity / federal entity.
25. A federal entity's benefits from its involvement with another entity / federal entity may be financial, non-financial or both. Financial benefits include benefits from investments such as dividends or similar distributions. Non-financial benefits include benefits from the use of scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the federal entity. Non-financial benefits occur when the activities of the other entity / federal entity are consistent with, and help achieve, the objectives of the federal entity.
26. Although only one entity can control another entity, more than one party can share in the benefits of that other entity. For example, holders of non-controlling interests can share in the financial benefits such as surpluses or distributions from an entity or the non-financial benefits such as congruence of activities with desired outcomes.



Example 35.8 - Examples of Financial Benefits

- A. Dividends, variable interest, debt instruments and other distributions of economic benefits;
- B. Exposure to an increase or decrease in the value of investment in another entity / federal entity;
- C. Exposure to loss from financial support agreements, including support for major projects;
- D. Cost savings (for example, by combining the transactions or assets of the federal entity with those of the entity / federal entity concerned);
- E. Residual interest in the assets and liabilities of the entity / federal entity concerned after liquidation.



Example 35.9 - Examples of Non-financial Benefits

- A. The ability to benefit from the specialized expertise of the entity / federal entity concerned;
- B. The value to the federal entity of the other entity / federal entity undertaking activities that assist the federal entity in achieving its objectives;
- C. More efficient or effective production and delivery of goods and services;
- D. Receiving more efficient assets or services;

Example 35.9 - Examples of Non-financial Benefits

- E. Receiving a higher-quality service.

Link between Power and Benefits

27. A federal entity controls another entity/ federal entity if the federal entity not only has power over, and rights and exposure to, variable benefits from its involvement with the other entity/ federal entity, but also has the ability to affect the nature or amount of the benefits by using its power over the other entity / federal entity.
28. The existence of consistent objectives alone is insufficient for a federal entity to control another federal entity. In order to have control, the federal entity would also need to have the power to direct the objectives of the entity/ federal entity concerned to increase or maintain consistency between objectives.
-  29. A federal entity with decision-making rights shall determine whether it is a principal or an agent. It shall also determine whether another entity/ federal with decision-making rights is an agent for the federal entity. An agent is a party that acts on behalf and for the benefit of the principal and therefore does not control the other entity / federal when it exercises its decision-making authority, because this authority lies with the principal and not the agent.

Accounting Requirements

-  30. A controlling federal entity shall prepare consolidated financial statements using uniform accounting policies for similar transactions and other events in similar circumstances. Where an entity / federal entity within a group uses accounting policies other than those adopted in consolidated financial statements, appropriate adjustments shall be made to the financial statements of that entity / federal entity when preparing the consolidated financial statements in accordance with the uniform accounting policies of the group.
-  31. Consolidation of financial statements shall begin from the date the federal entity obtains control, and cease when the federal entity loses that control.

Consolidation Procedures

32. The following steps shall be considered when preparing consolidated financial statements:
- A. Combining similar items of assets, liabilities, net assets, revenue, expenses and cash flows of the controlling entity with those of its controlled entities;
 - B. Eliminating the carrying amount of the controlling federal entity's investment in controlled entities and the controlling entity's portion of net assets of each controlled entity / federal entity;

- C. Eliminating all assets, liabilities, net assets, revenue, expenses and cash flows arising from internal transactions within the group.

Measurement

- 33. A federal entity shall account for the revenue and expenses of a controlled entity / federal entity in the consolidated financial statements from the date it gains control of that entity/ federal entity until the date when it loses that control. Revenue and expenses of the controlled entity/ federal entity shall be calculated based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation recognised in the statement of financial performance after the acquisition date shall be calculated based on the values of the depreciable assets recognised in the consolidated financial statements at the acquisition date.

Potential Voting Rights

- 34. When potential voting rights, or other financial instruments containing potential voting rights, exist, the proportion of surplus or deficit and changes in net assets allocated to the controlling federal entity and non-controlling interests in preparing consolidated financial statements shall be determined solely on the basis of existing ownership and not the possible exercise or conversion of potential voting rights and other financial instruments.
- 35. In some cases, a federal entity may have potential voting rights enabling it to obtain substantive rights associated with its ownership. In such case, when determining the proportion allocated to net assets and non-controlling interests in preparing consolidated financial statements, the exercise of those potential voting rights and other financial instruments that give the federal entity access to those benefits shall be taken into account.

Reporting Date



- 36. When preparing consolidated financial statements, the separate financial statements (of the controlled entities / federal entities) used in consolidation shall be prepared at the same date. When the reporting date of the controlling federal entity is different from that of a controlled entity / federal entity, the controlling federal entity either:
 - A. Obtains, for consolidation purposes, additional information as of the financial statements of the controlling federal entity; or
 - B. Uses the most recent financial statements of the controlled entity / federal entity adjusted for the effects of significant transactions and events that occur between the date of preparation of those financial statements and the date of preparation of the consolidated financial statements.

Non-controlling Interest



- 37. A controlling federal entity shall present non-controlling interests in the consolidated statements within net assets, separately from the net assets of the shareholders of the controlling federal entity.

38. A federal entity shall allocate the surplus or deficit and each gain or loss to the shareholders of the controlling federal entity and to the non-controlling interests. The federal entity shall also attribute the total amount recognised in the statement of changes in net assets to the shareholders of the controlling federal entity and to the non-controlling interests.
39. If a controlled entity / federal entity has cumulative preference shares that are classified as equity instruments and are held by non-controlling interests, the entity / federal entity shall compute its share of surplus or deficit after adjusting for dividends, whether or not such dividends have been declared.
40. When the proportion of the net assets held by a non-controlling interest changes, a federal entity shall adjust the carrying amounts of the net assets and non-controlling interest to reflect the changes in their relative interests in the controlled entity / federal entity. The federal entity shall recognise directly in net assets any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received that is attributable to the owners of the controlling federal entity (e. g. the federal government).

Loss of Control



41. If a controlling federal entity loses control of a controlled entity / federal entity, the controlling federal entity shall:
 - A. Eliminate the assets and liabilities of the former controlled entity / federal entity from the consolidated financial statements;
 - B. Recognise any investment retained in the former controlled entity / federal entity at its fair value when control is lost, as well as any amounts owed by or to the former controlled entity / federal in accordance with the relevant FGAAS. That value shall be regarded as the fair value on initial recognition of financial assets in accordance with FGAAS 41 "Financial Instruments" or the cost on initial recognition of an investment in associates or joint ventures;
 - C. Recognises the gain or loss arising from the loss of control attributable to the net assets of the controlling federal entity.
42. A controlling federal entity may lose control of a controlled entity / federal entity through multiple arrangements (transactions). However, sometimes, the multiple arrangements should be recognised as a single transaction. In determining whether to recognise the multiple arrangements as a single transaction, a controlling federal entity shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following factors may indicate that the controlling federal entity should account for the multiple arrangements as a single transaction:
 - A. The arrangements are entered into at the same time or at approximate times;
 - B. The arrangements form a single transaction designed to achieve an overall commercial objective;

- C. The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement;
- D. One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of an investment is priced below market and is compensated for by a subsequent disposal priced above market.



43. If a controlling federal entity loses control of a controlled entity / federal entity, it shall:

- A. Eliminate:
 - ✓ The assets (including goodwill, if any) and liabilities of the former controlled entity / federal entity at their carrying amounts at the date when control is lost;
 - ✓ The carrying amount of any non-controlling interest in the former controlled entity / federal entity at the date when control is lost (including any gain or loss recognised directly in net assets attributable to them).
- B. Recognise:
 - ✓ The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;
 - ✓ The distributions, if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the controlled entity / federal entity to shareholders in their capacity as shareholders;
 - ✓ Any investment retained in the former controlled entity / federal entity at its fair value at the date when control is lost.
- C. Recognise any resulting difference as a gain or loss in surplus or deficit attributable to the controlling federal entity.

44. If a controlling federal entity loses control of a controlled entity / federal entity, the controlling federal entity shall recognise all amounts previously recognised in net assets relating to that controlled entity / federal entity on the same basis as if the controlling federal entity had directly disposed of the relevant assets or liabilities.

45. If a controlling federal entity loses control of a controlled entity / federal entity that does not contain an operation, as defined in “business combination” standard, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the controlling federal entity determines the gain or loss in accordance with paragraphs 41-42. The gain or loss resulting from the transaction is recognized in the controlling entity’s surplus or deficit only to the extent of the unrelated investors’ interests in that associate or joint venture. The remaining part of the gain is eliminated against carrying amount of the investment in that associate or joint venture.

In addition, if the controlling entity retains an investment in the former controlled entity and the former controlled entity is now an associate or a joint venture that is accounted for using the equity method, the controlling entity recognizes the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former controlled entity in its surplus or deficit only to the extent of the unrelated investors’ interests in the new associate or joint venture. The remaining part of

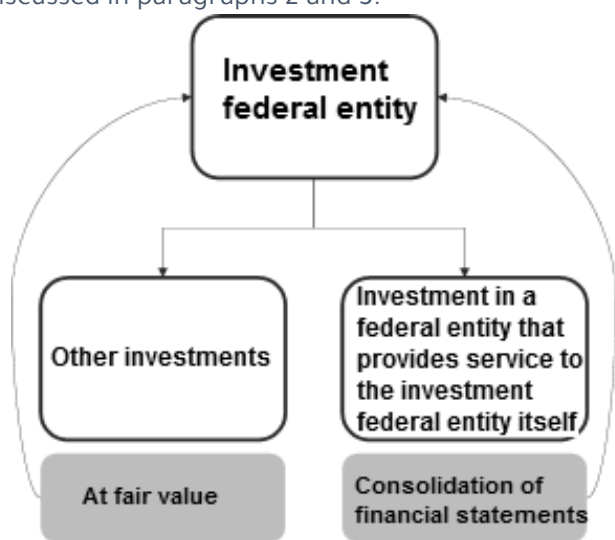
that gain is eliminated against the carrying amount of the investment retained in the former controlled entity.

If the controlling entity retains an investment in the former controlled entity that is now accounted for in accordance with “Financial Instruments” standard, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in the former controlled entity is recognized in full in the controlling entity’s surplus or deficit.

Appendix A - Investment Entities / Federal Entities: Fair Value Requirements

1. An investment entity / federal entity is one that:
 - A. Obtains funds from investors for the purpose of providing investment management services;
 - B. Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and
 - C. Evaluates the performance of all of its investments on a fair value basis.
2. Except as provided for in paragraph 3 below, an investment federal entity shall not consolidate its controlled entities / federal entities. An investment federal entity shall measure an investment in a controlled entity / federal at fair value through surplus or deficit in accordance with FGAAS 41 "Financial Instruments".
3. If an investment federal entity has a controlled entity / federal entity that is not an investment entity and its main purpose and activities are providing services that relate to the investment federal entity's activities and services, the investment federal entity shall consolidate the controlled entity / federal entity and applying the requirements of the "Business Combinations" standard upon the acquisition of any controlled entity.

The following diagram illustrates the bases for accounting for investments by an investment federal entity as discussed in paragraphs 2 and 3.



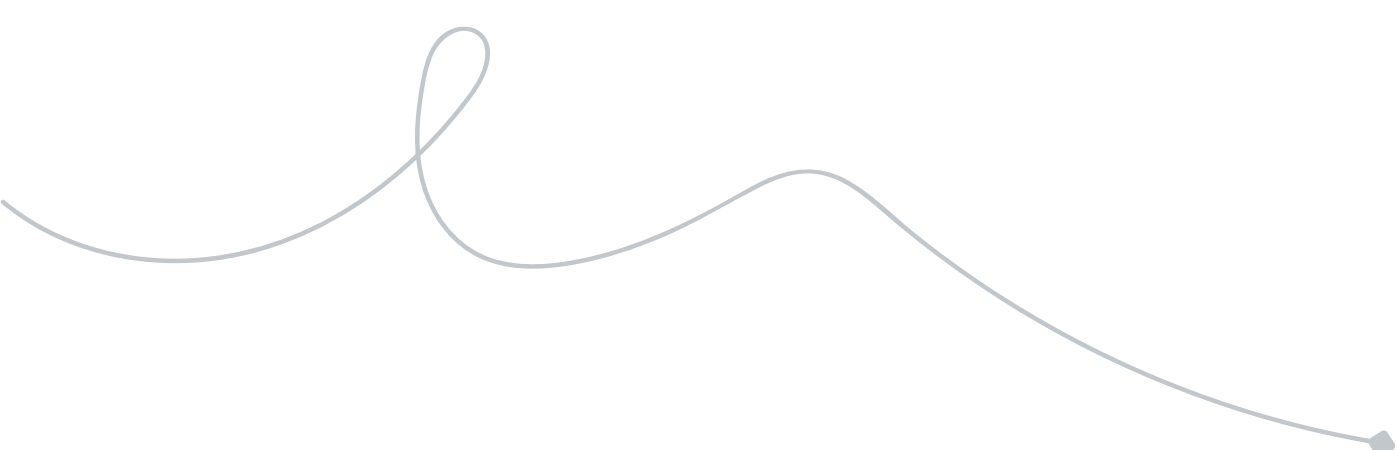
4. A non-investment federal entity that controls another investment entity / federal entity shall prepare consolidated financial statements in which it:
 - A. Measures the investments in the controlled investment entity / federal entity at fair value through surplus or deficit in accordance with FGAAS 41 "Financial Instruments";
 - B. Consolidate other assets and liabilities, expenses and revenue of the controlled investment entity / federal entity in accordance with this Standard.

Determining Whether an Entity / Federal Entity is an Investment Entity

5. A federal entity shall consider all facts and circumstances when assessing whether it is an investment entity / federal entity, in addition to its purpose and design. If facts and circumstances indicate any change in one or more of three components of the definition of an investment entity / federal entity (paragraph 1), the controlling federal entity shall reassess whether it is an investment entity / federal entity.
6. A controlling entity / federal entity that ceases to match the description of an investment entity or becomes an investment entity shall recognise this change prospectively from the date at which it occurred.

Judgments and Assumptions

7. An investment entity shall disclose the information about significant judgments and assumptions made in determining whether it is an investment entity unless it has the following characteristics:
 - A. It has obtained funds from more than one investor;
 - B. It has interests in the form of equity or similar rights;
 - C. It has more than one investment.
8. The absence of any of these characteristics does not necessarily disqualify an entity from being classified as an investment entity. However, the absence of any of these characteristics means that a federal entity is required to disclose information about the significant judgements and assumptions made in determining that it is an investment entity.



Standard 36 - Investments in Associates and Joint Ventures

Standard 36 - Investments in Associates and Joint Ventures

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 36 (IPSAS 36) which deals with investments in associates and joint ventures. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

The Standard for Investments in Associates and Joint Ventures - Table of Contents

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Objective

1. The objective of this Standard is to prescribe the accounting treatment for investments in associates or joint ventures and to set out the requirements for the application of the equity method when accounting for such investments.

Scope



2. This Standard provides the basis for accounting for net quantifiable ownership interests in associates and joint ventures. This includes net ownership interests arising from investments in the capital structure of another entity. A systematic capital structure means share capital or an equivalent form of capital. Net quantifiable ownership interests may also include equity interests arising from other investments in which a federal entity can measure its ownership reliably. This Standard applies to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards, as detailed in the introduction thereto.
3. Some contributions from federal entities may be referred to as an "investment" but may not give rise to an equity interest and, therefore, shall not be subject to this Standard.



Example 36.1 - Contributions from Federal Entities

- ✓ Annual contributions to ministries and other entities from the Ministry of Finance;
- ✓ Contribution from the Ministry of Health to the construction of a hospital owned and operated by a charity.

Significant Influence

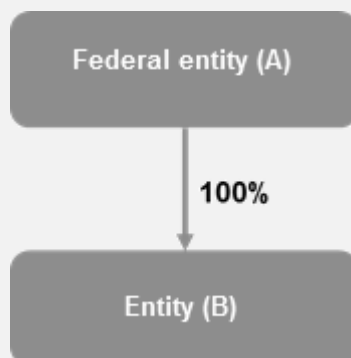
4. Whether an investor federal entity has significant influence over the investee entity shall be determined based on the nature of the relationship between the two entities and on the definition of significant influence in this Section. Therefore, it is a matter of judgment.
5. An investor federal entity is presumed to have significant influence on an investee entity if it holds a quantifiable ownership interest and it holds, directly or indirectly, through federal entities or controlled entities, 20% or more of the voting rights in the investee entity, unless there is clear evidence to the contrary. Conversely, if the aforementioned conditions are satisfied except that the ownership interest is less than 20% of the investee entity, it is presumed that the federal entity does not have significant influence, unless there is clear evidence to the contrary. It is worth noting that a substantial or majority ownership interest held by another investor does not preclude an investor federal entity from having significant influence.
6. Federal entities shall determine whether they have significant influence over investee entities by one or more of the following indicators:
 - A. Representation on the board of directors or equivalent governing body of the investee entity;

- B. Participation in policy-making processes, including participation in decisions relating to dividends or similar distributions;
 - C. Material transactions between the investor federal entity and the investee entity;
 - D. Exchange of managerial expertise between the investor federal entity and the investee entity;
 - E. Provision of essential technical information to the investee entity by the investor federal entity.
7. A federal entity shall also consider potential voting rights that are currently exercisable or convertible, for all investors in an entity, when assessing whether it has significant influence; as owning any debt instruments or equity rights that are exercisable or convertible to ordinary shares or similar instruments that have the potential, if exercised or converted, to give the federal entity additional voting rights to the financial and operating policies of the investee entity or retract the voting rights of another investor. Potential voting rights are not currently exercisable or convertible when they cannot be exercised or converted until a future date or until the occurrence of a future event.
8. When assessing whether potential voting rights contribute to the significant influence over the investee entity, a federal entity shall examine all facts and circumstances, including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination, that affect potential rights, except the intentions of management and the federal entity's financial ability to exercise or convert those potential rights.
9. Accordingly, the ability to participate in the financial and operating policy decisions of the investee entity is the key factor in determining whether the federal entity has significant influence over that investee entity; as the loss of the ability to participate leads to the loss of significant influence regardless of the change in ownership interest.



Example 36.2 - Determining Significant Influence

Federal entity (A) owns 100% of the ordinary shares with voting rights in entity (B) and controls that entity.



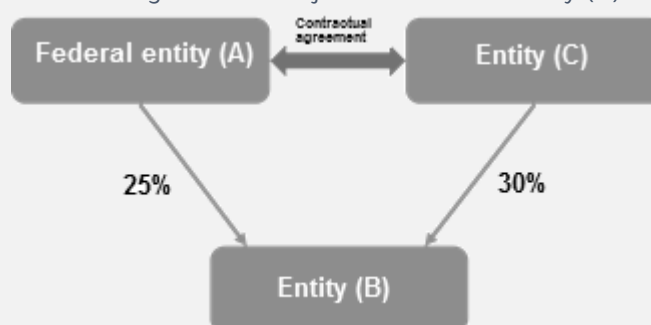
Determining significant influence:

Federal entity (A) does not have significant influence over entity (B), but rather controls it, accordingly, the federal entity must determine whether or not the entity is of a commercial and profitable nature, and if it is determined that the entity is of a commercial and profitable nature, the equity method will be applied. In the event that it is not determined that the entity is of a commercial and profitable nature, then its financial data will be consolidated within the consolidated financial statements of the federal entity.



Example 36.3 - Determining Significant Influence

Federal entity (A) owns 25% of the ordinary shares with voting rights in entity (B). Entity (C) owns 30% of the ordinary shares with voting rights in entity (B). Federal entity (A) and entity (C) entered into a contractual agreement on joint control of entity (B).



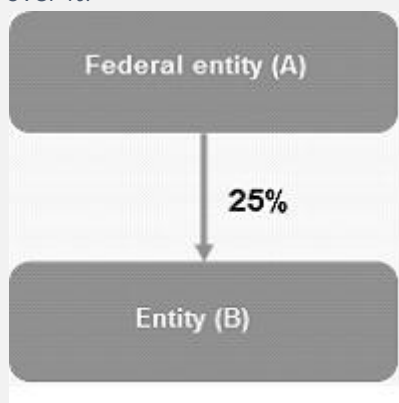
Determining significant influence:

Federal entity (A) does not have significant influence over entity (B), but rather joint control over it. Federal entity (A) needs to account for entity (B) in the financial statements of its group in accordance with the requirements of FGAAS 37 "Joint Arrangements".



Example 36.4 - Determining Significant Influence

Federal entity (A) owns 25% of the ordinary shares with voting rights in entity (B), but neither controls nor have joint control over it.

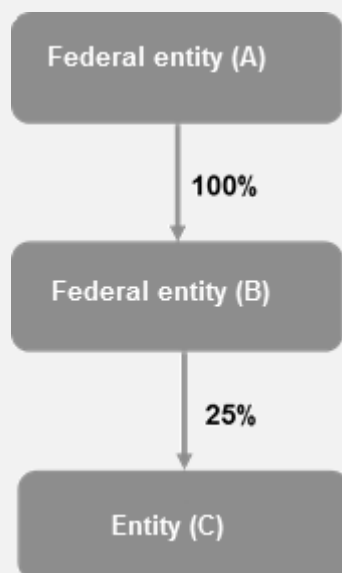
***Determining significant influence:***

Federal entity (A) is presumed to have significant influence over entity (B) (i.e. entity (B) is, in the absence of any evidence to the contrary, an associate of federal entity (A)). However, it is worth noting that determining the existence of significant influence based on the 25% ownership held by federal entity (A) in entity (B) is not automatic and requires judgment; as, although federal entity (A) owns 25% of voting rights in entity (B), it may not have significant influence over it.

If it was determined that federal entity (A) does not have significant influence over entity (B), the investment in the ordinary share of entity (B) shall be accounted for as a financial asset (see FGAAS 41 “Financial Instruments”).

**Example 36.5 - Determining Significant Influence**

Federal entity (A) owns all the ordinary shares with voting rights in federal entity (B). Federal entity (B) owns 25% of the ordinary shares with voting rights in entity (C). The group of federal entity (A) (i.e. federal entity (A) and controlled federal entity (B)) neither controls nor have joint control over entity (C).

***Determining significant influence:***

Federal entity (A) is presumed to have significant influence over entity (C) (i.e. entity (C) is, in the absence of any evidence to the contrary, an associate of federal entity (A)). However, it is worth noting that determining the existence of significant influence based on the 25% ownership held indirectly by federal entity (A) in entity (C) is not automatic and requires judgment; as, although federal entity (A) owns 25% of voting rights in entity (C), it may not have significant influence over it.

If it was determined that federal entity (A) does not have significant influence over entity (C), the investment in the ordinary share of entity (C) shall be accounted for as a financial asset (see FGAAS 41 “Financial Instruments”).

Application of the Equity Method



10. An investor federal entity that has joint control or significant influence over an investee entity shall treat its investment in an associate or joint venture, other than investments that qualify for exemption in accordance with paragraphs 39 and 40, using the equity method.

Equity Method Procedures

11. Many of the procedures followed when applying the equity method are similar to the consolidation procedures prescribed in FGAAS 35 "Consolidated Financial Statements". In addition, the concepts implied in the procedures followed in accounting for ownership interest in a federal entity or controlled entity are the same as those used in accounting for an investment in an associate or joint venture.
12. An economic entity's share in an associate or a joint venture is the aggregate of the investments of the controlling federal entity and its controlled entities in that associate or joint venture. When an associate or a joint venture has controlled entities, associates or joint ventures, the surplus or deficit and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements, including the associate's or joint venture's share of the surpluses or deficits and net assets of its associates and joint ventures, after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 19 and 20) ,
13. Gains and losses resulting from upstream and downstream transactions between a federal entity (including its consolidated controlled federal entities) and its associate or joint venture shall be recognised in the federal entity's financial statements only to the extent of unrelated investors' shares in the associate or joint venture, and the federal entity's share in these gains or losses shall be eliminated.
14. When there is evidence of a reduction in the realisable value of the assets to be sold, contributed or acquired, or an impairment loss of those assets, the investor federal entity shall:
 - F. In the event of downstream transactions: Recognise those losses in full;
 - G. In the event of upstream transactions: Recognise its share in those losses.
15. The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 13, except when the contribution lacks commercial substance, as defined in FGAAS 17 "Property, Plant and Equipment". Gain or loss from contributions that lack commercial substance shall be regarded as unrealised and shall not be recognised unless paragraph 16 applies and shall be eliminated against the investment accounted for using the equity method, and shall not be presented as deferred gain or loss in the federal entity's consolidated statement of financial position or in the federal entity's statement of financial position in which investments are accounted for using the equity method.



Example 36.6 - Receiving Non-monetary Assets in Exchange for Equity Interest in an Associate or Joint Venture

Federal entity (A) contributed a non-monetary asset in exchange for 55% equity interest in joint venture (B) in a transaction that has a commercial substance. The asset's varying amount was AED 10,000 and its fair value AED 12,000.

Recognising gain arising from the transaction between federal entity (A) and joint venture (B):

1. Calculating total gain from the transactions:
 $12,000 - 10,000 = \text{AED } 2,000$ of gain from then asset contributed to joint venture (B).
 2. Calculating the share of federal entity (A) in the gain from the transaction to the extent of unrelated investors' shares:
 $2,000 \times 45\% = \text{AED } 900$ the share of federal entity (A) in the gain.
16. If, in addition to receiving an equity interest in an associate or a joint venture, a federal entity receives monetary or non-monetary assets, the federal entity shall recognise in full in surplus or deficit its share of the gain or loss on the contribution relating to the monetary or non-monetary assets received.
 17. The gain or loss resulting from a downstream transaction involving assets that constitute an operation, as defined in "Business Combination" standard, between an entity (including its consolidated controlled entities) and its associate or joint venture is recognized in full in the investor's financial statements.
 18. An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute an operation, as defined in "Business Combination" standard, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
 19. An investment shall be accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the federal entity's share of the net fair value of the investee entity's identifiable assets and liabilities shall be accounted for as follows:
 - A. Where goodwill relating to an associate or a joint venture is included in the carrying amount, the federal entity may not amortise that goodwill;
 - B. Any excess of the federal entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment shall be included as revenue in the determination of the entity's share in the associate's or joint venture's surplus or deficit in the period in which the investment is acquired.



Example 36.7 - Adjustments to a Federal Entity's Share in an Associate's or Joint Venture's Surplus or Deficit

Necessary adjustments shall be made to a federal entity's share in an associate's or joint venture's surplus or deficit after acquisition, including:

- ✓ Accounting for the depreciation of depreciable assets based on their fair value at the date of acquisition.
- ✓ Calculating impairment losses; such as for property, plant and equipment and goodwill (where applicable).



20. The most recent available financial statements of the associate or joint venture shall be used by the federal entity in applying the equity method. When the end of the reporting period of the federal entity is different from that of an associate or joint venture, the entity shall either:

- A. Obtain, for the purpose of applying the equity method, additional financial information as of the same date of the financial statements of the federal entity; or
- B. Use the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the federal entity's financial statements.



21. A federal entity's financial statements shall be prepared using uniform accounting policies for similar transactions and events in similar circumstances. Therefore, except as described in paragraph 22, a federal entity shall make adjustments to make the associate's or joint venture's accounting policies for similar transactions and events in similar circumstances conform to those of the federal entity; when using the associate's or joint venture's financial statements in applying the equity method.



22. An associate or joint venture to which the definition of a federal entity / investment entity applies (see Annex A to FGAAS 35 "Consolidated Financial Statements") shall be exempted from the requirements of paragraph 21. In such a case, the federal entity shall retain the fair value measurement applied by the associate or joint venture to their investments in controlled entities.

23. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the federal entity and are classified as equity, the federal entity shall compute its share in surplus or deficit after adjusting for the dividends on such shares, whether or not the dividends have been declared.

24. If a federal entity's share of the deficit of an associate or a joint venture equals or exceeds its investment in the associate or joint venture, the federal entity shall discontinue recognising its share of further losses. The investment in an associate or a joint venture is the carrying amount determined using the equity method together with any long-term investments that, in substance, form part of the federal entity's net investment in the associate or joint

venture. Deficit recognised using the equity method in excess of the federal entity's investment in ordinary shares shall be applied to the other components of the federal entity's investment in the reverse order of their seniority (i.e. priority in liquidation).

Example 36.8 - Long-term Investments that, in Substance, Form Part of Net Investment in an Associate or Joint venture

Long-term investments that, in substance, form part of net investment in an associate or joint venture include any item for which settlement is neither planned nor likely to occur in the foreseeable future and is, in substance, an extension of the federal entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.



Example 36.9 - Applying Deficit Recognised Using the Equity Method that Exceeds the Investment in an Associate or Joint Venture

Federal entity (A) owns 25% of the ordinary shares with voting rights in entity (B). Entity (B) is regarded as an associate of federal entity (A).

Net assets of entity (B) at the beginning of the year was zero, but it incurred AED 50,000 in deficit during the year resulting in net liabilities of the same amount at the end of the year.

Federal entity (A) financed this deficit by an unsecured long-term loan of AED 20,000.

Therefore, net liabilities include the loan and long-term receivables relating to fees for services provided by federal entity (A) for the amount of AED 10,000.

Applying recognised deficit that exceeds the investment in the associate entity (B):

1. Determining the share of federal entity (A) in the deficit of the associate entity (B):
 $50,000 \times 25\% = \text{AED } 12,500$ applied to the investment of federal entity (A) in the associate entity (B).
2. Determining long-term investments that, in substance, form part of net investment in the associate entity (B):
 Federal entity (A) should assess whether the loan granted and receivables from the associate entity (B), in substance, form part of its net investment in the associate entity (B). The assessment shall be as follows:
 - A. For the loan granted, the loan's maturity date is not sufficient reason for it to be regarded as part of the investment if it is a long-term loan, as the substance of the finance granted needs to be considered. For example, management may not have the intention to settle the loan on its specified maturity date nor have any plans to do so. Therefore, the loan shall be regarded as part of the investment (which is the case in this example)
 - B. For receivables the settlement of which is neither planned by management nor is likely to occur in the foreseeable future, such receivables are regarded part of the investment (which is the case in this example).

Example 36.9 - Applying Deficit Recognised Using the Equity Method that Exceeds the Investment in an Associate or Joint Venture

3. Arranging other components of the investment in the associate entity (B) in order of their seniority:

For the purposes of this example, receivables were regarded as due before the loan granted (i.e. seniority in liquidity). Therefore, the deficit is applied to receivables first, and then to the loan.

4. Applying the deficit to other components of the investment in the associate entity (B) to be reported in the financial statements of federal entity (A) at the reporting date:

A. Long-term receivables - 10,000 - 10,000 = AED 0

D. Remaining deficit = 12,500 - 10,000 = AED 2,500

B. Unsecured long-term loan = 40,000 - 2,500 = AED 37,500

25. After the federal entity's investment is reduced to zero, a provision for additional deficits shall be created, and a liability shall be recognised only to the extent that the federal entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently realises surpluses, the federal entity shall resume recognising its share of those surpluses only after its share of the surpluses equals the share of unrecognised deficits.

Recognition

26. Under the equity method, the investment in an associate or a joint venture shall be initially recognised at cost and its carrying amount shall be adjusted by the investor federal entity's share of the surplus or deficit of the investee entity (which shall also be recognised in the investor federal entity's surplus or deficit) after the date of acquisition. The carrying amount of the investment shall also be reduced by the amounts of distributions received from the investee entity. Adjustments to the carrying amount may also be necessary for changes in the investor federal entity's interest arising from changes in the investee entity's equity that have not been recognised in the investee entity's surplus or deficit. The investor federal entity's share of those changes shall be recognised in its net assets.
27. A federal entity's investment in an associate or joint venture shall be determined solely on the basis of (existing) ownership interests and shall not reflect the possible exercise or conversion of potential voting rights or other derivative instruments with potential voting rights, unless paragraph 28 applies.
28. In some cases, a federal entity may have, in substance, an existing ownership interest in an investee entity as a result of a transaction that currently gives it access to the benefits associated with an ownership interest. In such circumstances, the proportion allocated to the federal entity shall be determined by taking into account the eventual exercise of those

potential voting rights and other derivative instruments that give the federal entity access to these benefits.

29. Instruments containing potential voting rights in an associate or joint venture shall be accounted for in accordance with FGAAS 41 "Financial Instruments", with the exception of those instruments which currently give access to benefits associated with an ownership interest in an associate or joint venture.



30. Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

Measurement

Impairment Losses

31. A federal entity shall apply paragraphs 33 - 35 in determining whether there is any objective evidence that its net investments in an associate or joint venture is impaired after applying the equity method and recognising the deficit of the associate or joint venture pursuant to paragraph 24;
32. The federal entity applies the impairment requirements in FGAAS 41 to its other interests in the associate or joint venture that are in scope of FGAAS 41 and that do not constitute part of the net investment.
33. The net investment in an associate or joint venture is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity about the following loss events:
- A. Significant financial difficulty of the associate or joint venture;
 - B. A breach of contract, such as a default or delinquency in payments by the associate or joint venture;
 - C. The federal entity, for economic or legal reasons relating to its associate's or joint venture's financial difficulty, granting to the associate or joint venture a concession that the entity federal would not otherwise consider;
 - D. It becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganization; or
 - E. The disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture.

34. The disappearance of an active market because the associate's or joint venture's equity or financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an associate's or joint venture's credit rating or a decline in the fair value of the associate or joint venture, is not of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.
35. In addition to the types of events in paragraph 37, objective evidence of impairment for the net investment in the equity instruments of the associate or joint venture includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate or joint venture operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.
36. Subject to paragraphs 31 and 32, a federal entity shall apply FGAAS 26 "Impairment of Cash-generating Assets" or FGAAS 21 "Impairment of Non-cash Generating Assets".
37. FGAAS 26 "Impairment of Cash-generating Assets" directs a federal entity to determine the value in use of a cash-generating investment. The federal entity shall determine:
- A. Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
 - B. The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods should give the same result.



38. FGAAS 21 "Impairment of Non-cash Generating Assets" requires that, if the recoverable service amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable service amount. Recoverable service amount is the higher of an asset's fair value less costs to sell and its value in use. Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential which may be assessed using the depreciated replacement cost approach, the restoration cost approach or the service units approach, as appropriate.
39. A federal entity shall assess the recoverable amount for each investment in an associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the federal entity.

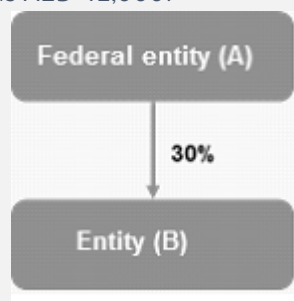


Example 36.10 - Application of the Equity Method

On January 1st, federal entity (A) acquired 30% of the ordinary shares with voting rights in entity (B) for AED 30,000. Federal entity (A) neither controls nor have joint control over entity (B). On December 31st, entity (B) recognised a gain of AED 40,000 and declared dividends of

Example 36.10 - Application of the Equity Method

AED 15,000 that have been paid before the reporting date (December 31st). At the reporting date, the investment's fair value was AED 42,000.

***Determining significant influence:***

Federal entity (A) is presumed to have significant influence over entity (B) (i.e. entity (B) is, in the absence of any evidence to the contrary, an associate of federal entity (A)). Therefore, the equity method is applied to the investment in entity (B).

Application of the equity method:

1. Recognising the share of federal entity (A) in the gains of the associate entity (B):
 $40,000 \times 30\% = \text{AED } 12,000$ recognised in the surplus or deficit of federal entity (A) for the year.
2. Calculating the share of federal entity (A) of dividends from the associate entity (B):
 $15,000 \times 30\% = \text{AED } 4,500$ in dividends distributed and paid by the associate entity (B) to federal entity (A).
3. Reporting the investment in the financial statements of federal entity (A) at the reporting date:
 $30,000 + 12,000 - 4,500 = \text{AED } 37,500$ the amount of investment in the associate entity (B).
4. Assessing whether there are any indications of impairment of the investment:
 Since the investment's fair value of AED 42,000 exceeds its carrying amount, there are no impairment losses.

Changes in Ownership Interest

40. If a federal entity reduces its ownership interest in an associate or a joint venture, but the classification of the investment remains unchanged, the federal entity shall transfer directly to accumulated surpluses or deficits its proportion of the gain or loss that had previously been recognised in net assets relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surpluses or deficits on the disposal of the related assets or liabilities.

Exemption from the Application of the Equity Method

41. Controlling federal entities that are exempted from preparing consolidated financial statements as per the scope of the exemption prescribed in paragraph 3 of FGAAS 35 "Consolidated Financial Statements" shall be exempted from applying the equity method to investments in associates or joint ventures.
42. A federal entity may elect to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with FGAAS 41 "Financial Instruments" when its investments are held indirectly through an entity that is a venture capital organisation, a mutual fund, unit trust and similar entities including investment-linked insurance funds. Investment entities will, by definition, have made this election. The federal entity may also make this election regardless of whether these entities have significant influence over that portion of the investment, in which case the federal entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through any of the aforementioned entities.

Classification as Held for Sale

43. A federal entity shall apply FGAAS 44 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, a federal entity shall account for any retained interest in the associate or joint venture in accordance with FGAAS 41 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.
44. When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly

Discontinuing the Use of the Equity Method

45. A federal entity shall discontinue the use of the equity method from the date when its investee entity ceases to be regarded as an associate or a joint venture as follows:



- A. If the investee entity becomes a controlled entity, the federal entity shall account for it in accordance with FGAAS 35 "Consolidated Financial Statements";
- B. If the retained interest in the former associate or joint venture is a financial asset, the federal entity shall measure the retained interest at fair value and shall regard it on initial recognition as a financial asset in accordance with FGAAS 41 "Financial Instruments". The federal entity shall also recognise in surplus or deficit any difference between:
 - ✓ The fair value of any retained interest and any proceeds from disposing of a part of the interest in the associate or joint venture;
 - ✓ The carrying amount of the investment at the date the use of the equity method was discontinued.
- C. The federal entity shall account for all amounts previously recognised directly in the entity's net assets in relation to the investment to which the application of the equity method has been discontinued, on the same basis as would have been required if the investee entity had directly disposed of the related assets or liabilities.

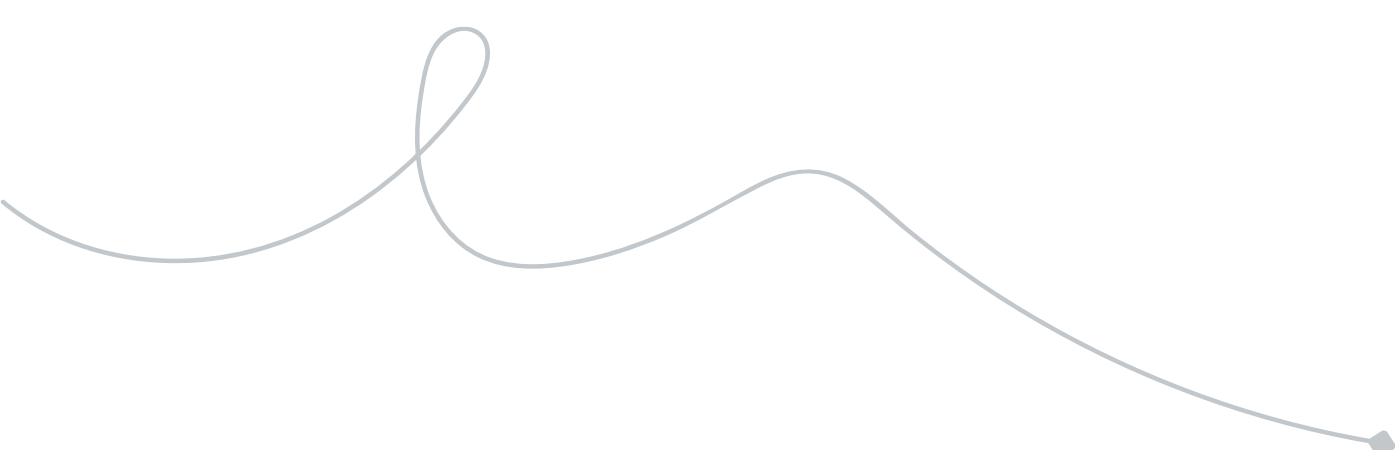


46. If an investment in an associate becomes an investment in a joint venture or vice versa, a federal entity shall continue to apply the equity method and shall not re-measure the retained investment.

Separate Financial Statements



47. Investments in an associate or joint venture shall be accounted for in a federal entity's separate financial statements in accordance with FGAAS 34 "Separate Financial Statements"



Standard 37 - Joint Arrangements

Standard 37 - Joint Arrangements

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 37 (IPSAS 37) which deals with joint arrangements. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective



1. The objective of this Standard is to establish principles for financial reporting relating to federal entities' investments in arrangements that are subject to joint control (joint arrangements). This Standard defines joint control and requires federal entities that are parties to a joint arrangement to determine the bases for classifying joint arrangements into joint operations or joint ventures by assessing the rights and obligations arising from them. The Standard also prescribes the accounting treatment for such rights and obligations as per the classifications of these joint arrangements.

Scope



2. This Standard applies to all federal entities that are covered by the Federal Government Accrual Accounting Standards Manual, as detailed in the introduction thereto, which are parties to a joint arrangement. This Standard shall be applied in determining the type of a joint arrangement and in accounting for the rights and obligations associated with the arrangement.

Joint Arrangements

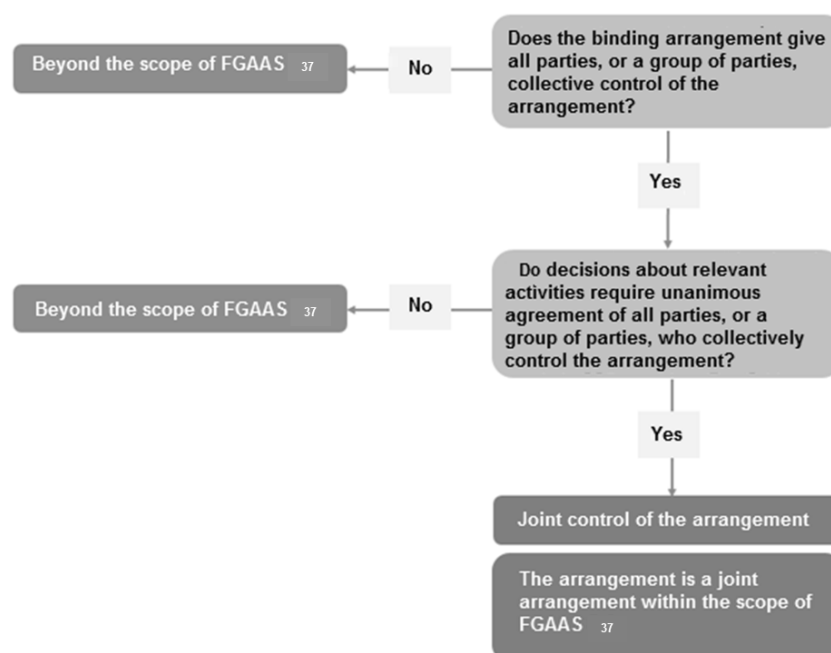


3. A joint arrangements is either a joint operation or a joint venture, and has the following characteristics:
 - A. The parties are bound by a binding arrangement;
 - B. The binding arrangement gives two or more of those parties joint control of the arrangement as described in paragraphs 5 - 8.

Joint Control



4. The following diagram illustrates the assessment of joint control within the scope of FGAAS 37 "Joint Arrangements":



5. A federal entity shall assess whether the binding arrangement to which it is a party gives all the parties, or a group of the parties, collective control of the arrangement's activities that materially affect its benefits. Accordingly, joint control is determined where all the controlling parties of the arrangement are required to unanimously approve the decisions about relevant activities. Therefore, this assessment requires a federal entity to exercise judgments while taking all facts and circumstances into account. If the facts and circumstances change, a reassessment is required.
6. No single party controls a joint arrangement on its own, but can prevent any of the other parties, or a group of parties, from controlling the arrangement. This Standard distinguishes between parties which have joint control of a joint arrangement (for example: Joint operators or joint ventures), and parties that participate in, but do not have joint control of, a joint arrangement; as an arrangement can be a joint arrangement even though not all of its parties have joint control of it.
7. In cases where a binding arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities, and that minimum proportion can be achieved by more than one combination of the parties agreeing together, that arrangement shall not be regarded as a joint arrangement unless the binding arrangement specifies which parties or combination of parties are required to agree unanimously to decisions about the relevant activities of the arrangement.

Example 37.1 - Joint Control

- A. If federal entity (A) participates in an arrangement that requires unanimous agreement of all parties only to decisions that give a party to the arrangement protective rights:

**Example 37.1 - Joint Control**

- ✓ Federal entity (A) does not have joint control of the arrangement as the unanimous agreement requirement does not include decisions about relevant activities of the arrangement.
 - B. If federal entity (A) participates in an arrangement that allows decisions relating to dispute resolution (arbitration) without unanimous agreement of the parties:
- ✓ This clause does not preclude joint control of the arrangement as it does not relate to decisions about relevant activities of the arrangement.

**Example 37.2 - Joint Control**

Two federal entities established an arrangement under which each of them owns 50% of voting rights. The binding arrangement requires at least 51% of voting rights to make decisions about relevant activities.

Therefore, the two federal parties have, in substance, agreed to have joint control of the arrangement because decisions about relevant activities cannot be made without the agreement of both parties.

**Example 37.3 - Joint Control**

Three federal entities established an arrangement under which each of them has voting rights as follows:

- ✓ Federal entity (A) - 50% of voting rights
- ✓ Federal entity (B) - 30% of voting rights
- ✓ Federal entity (C) - 20% of voting rights

The binding arrangement requires 75% of voting rights to make decisions about relevant activities.

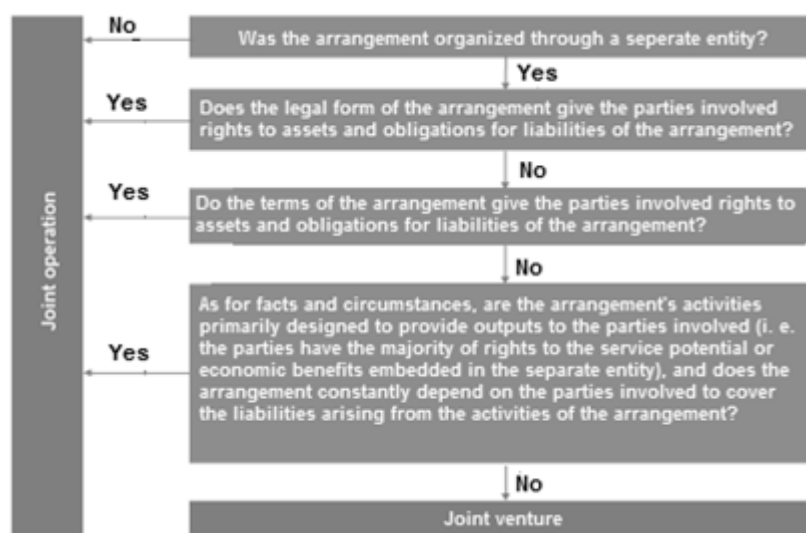
Accordingly, federal entity (A), despite its ability to block any decision, does not control the arrangement; because it needs the approval of federal entity (B). Requiring 75% of voting rights, under the binding arrangement, for decisions about relevant activities implies that federal entities (A) and (B) have joint control of the arrangements since no decision can be made without their approval.

Types of Joint Arrangements

8. A federal entity shall determine the type of joint arrangement in which it is involved and shall use judgment when assessing whether a joint arrangement is a joint operation or a joint venture. Classification of a joint arrangement depends on the rights and obligations of the parties to the arrangement while considering the structure and legal form of the arrangement, the terms agreed by the parties or established by the relevant legislative or

executive authority and (where applicable) other facts and circumstances. If facts and circumstances change, the federal entity shall reassess the type of the joint arrangement.

9. The following diagram summarizes the manner in which the type of joint arrangement is determined:



10. Sometimes, federal entities (as parties) may be bound by the terms of an agreement that sets up the framework for one or more activities to be undertaken (known as the “framework Agreement”). The framework agreement might provide for establishing different joint arrangements to deal with specific activities that form part of the agreement. Even though such framework agreement might include several joint arrangements, their type might be different if the parties’ rights and obligations differ when undertaking the different activities prescribed in the agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.

11. The following table sets out the bases for classifying a joint arrangement as a joint operation or joint venture:

Terms	Joint Operation	Joint Venture
Terms of the binding arrangement	The arrangement provides the parties (including federal entities) rights to the assets, and obligations for the liabilities, relating to the arrangement.	The arrangement provides the parties (including federal entities), but not the separate entity, rights to the net assets of the arrangement, such that rights to assets, and obligations for liabilities, of the arrangement are limited to the separate entity.
Rights to assets	The parties (including federal entities) share interests (e.g., rights, ownership) in the	The parties (including federal entities) have no interests in movable assets that are subsequently acquired by the joint

Terms	Joint Operation	Joint Venture
	assets relating to the arrangement in a specified proportion	arrangement as they are regarded as assets of the arrangement.
Obligations for liabilities	The parties (including federal entities) share liabilities, and expenses of the arrangement in a specified proportion. The parties are also liable for entitlements payable to third parties.	The parties (including federal entities) do not share the debts and obligations of the arrangement. However, the arrangement may establish that the parties are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital. In addition, creditors of the arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, surplus or deficit	The arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the arrangement	The arrangement establishes each party's share in the surplus or deficit relating to the activities of the arrangement.
Guarantees	Parties to a joint arrangement are usually required to provide guarantees to third parties, such as getting a service from, or providing financing to the joint arrangement. The provision of such guarantees, or the obligation of the parties to provide them, does not by itself indicate that the joint arrangement is a joint operation. The characteristic that determines whether a joint arrangement is a joint operation or a joint venture is whether the parties entail covenants for the obligations relating to the arrangement (some of which the parties may or may not have provided guarantees).	

Example 37.4 - Allocation of Revenues and Expenses to Parties to a Joint Operation

- ✓ Allocation of surplus or deficit arising from the arrangement based on the federal entity's share in the joint arrangement.
- ✓ Allocation of revenues and expenses based on the capacity of the plant (that is jointly operated) used by the federal entity compared to the parties involved in the arrangement.

Example 37.5 -Facts and Other Circumstances Related to a Joint Arrangement

Following is an example of the effect of facts and other circumstances in determining whether a joint arrangement is a joint venture or joint operation (See the diagram in paragraph 9): Federal entity (A) participated in a joint arrangement the activities of which are specifically designed to provide its outputs to the federal entity and other parties involved in the arrangement, while preventing the sale of outputs to any third party.

The above mentioned facts indicate that the parties have material rights to the service potential or economic benefits embodied in the assets of the arrangement, which also means that the possible liabilities of the arrangement is, in substance, covered by cash inflows from the parties as a result of purchases of outputs. Therefore, the parties are the only source of cash flows that contribute to the continuity of the operations of the arrangement, which indicates that the parties are liable for claims of the arrangement and the arrangement may, therefore, be classified as a joint operation.

Financial Statements of a Federal Entity that is Party to a Joint Arrangement

Joint Operations



12. A federal entity that is party to a joint operation shall recognise the following with respect to its share in the joint operation's assets, liabilities, revenues and expenses in accordance with relevant Federal Government Accrual Accounting Standards:
 - A. Assets, including the federal entity's share of any assets held jointly;
 - B. Liabilities, including the federal entity's share of any liabilities incurred jointly;
 - C. Revenue from the sale of the federal entity's share of the output arising from the joint operation;
 - D. The federal entity's share of the revenue from the sale of the output by the joint operation;
 - E. Expenses, including the federal entity's share of the expenses incurred jointly.
13. When a federal entity that is involved in a joint operation sells or contributes assets to the joint operation, gains or losses from the transaction shall be recognised only to the extent of the other parties' share in the joint operations. When such transactions provide evidence of a reduction in the realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, the federal entity that is involved in the joint operation shall recognise those losses in full.
14. A federal entity that is involved in a joint operation and purchases assets from the joint operation shall not recognise its share of the gains and losses until those assets are sold to a third party. When such transactions provide evidence of a reduction in the realisable value of



the assets to be purchased for a joint operation or of an impairment loss of those assets, the federal entity that is involved in the joint operation shall recognise its share of those losses.

15. A federal entity that is involved in a joint operation but does not have joint control shall account for its share in the arrangement in accordance with paragraphs 12 - 14 if it has rights to assets and obligations for liabilities related to the joint operation. If it does not have rights to assets and obligations for liabilities, it shall account for its share in the joint operation in accordance with relevant Federal Government Accrual Accounting Standards.

Joint Ventures



16. A federal entity that is involved in a joint venture shall recognise its share in the joint venture as an investment and shall account for it using the equity method in accordance with FGAAS 36 "Investments in Associates and Joint Ventures", unless the federal entity is exempted from applying the equity method in accordance with FGAAS 36 "Investments in Associates and Joint Ventures".



17. A federal entity that is involved in a joint operation but does not have joint control shall account for its share in the arrangement in accordance with FGAAS 41 "Financial Instruments", unless it has significant influence over the joint venture, in which case it shall account for its share in accordance with FGAAS 36 "Investments in Associates and Joint Ventures".

Separate Financial Statements



18. The following table sets out the manner in which a federal entity shall account for its share in a joint operation or joint venture:

	Joint Operation	Joint Venture
Accounting for the share of a federal entity that is involved in a joint operation or joint venture in its separate financial statements	In accordance with paragraphs 12 - 14	In accordance with FGAAS 34 "Separate Financial Statements"
Accounting for the share of a federal entity that is involved in a joint arrangement but does not have joint control	In accordance with paragraph 15	In accordance with FGAAS 41 "Financial Instruments", unless it has significant influence over the joint venture, in which case FGAAS 34 "Separate Financial Statements" applies.



Standard 38 - Disclosure of Interests in Federal Entities or Other Entities

Standard 38 - Disclosure of Interests in Federal Entities or Other Entities

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 38 (IPSAS 38) which deals with the required disclosures of interests in other entities. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

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Objective

1. The objective of this Standard is to prescribe the requirements for disclosing information that would enable users of financial statements to evaluate:
 - A. The nature of, and risks associated with, federal entities' interests in controlled entities, regardless of whether or not they are consolidated in a federal entity's financial statements, as well as the nature of, and risks associated with, joint arrangements, associates and structured entities that are not consolidated;
 - B. The effect of those interests on a federal entity's financial position, financial performance and cash flows.

Scope



2. This Standard applies to all federal entities covered by the Federal Government Accrual Accounting Standards Manual, as detailed in the introduction thereto, which are required to disclose information about their interests in controlled entities regardless of whether or not they are consolidated in their consolidated financial statements, as well as disclosing joint arrangements, associates and structured entities that are not consolidated in a federal entity's consolidated financial statements.



3. This Standard applies to a federal entity that has interests in:
 - A. Controlled entities;
 - B. Joint arrangements (joint operations or joint ventures);
 - C. Associates;
 - D. Structured entities that are not consolidated.

When a federal entity's interest in a controlled entity, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with FGAAS 44, Non-current Assets Classified as Held for Sale and Discontinued Operations, the federal entity is not required to disclose summarized financial information for that controlled entity, joint venture or associate. Except above, the requirements in this Standard apply to a federal entity's interests listed in paragraph 3 that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with FGAASS 44, Non-current Assets Held for Sale and Discontinued Operations.



4. This Standard does not apply to:

- A. Post-employment benefit plans or long-term employee benefit plans that are dealt with in FGAAS 39 “Employee Benefits”;
- B. A federal entity’s separate financial statements to which the provisions of FGAAS 34 “Separate Financial Statements” apply, subject to the following:
 - ✓ If the federal entity has interests in structured entities that are not consolidated and prepares separate financial statements as its only financial statements, it shall apply paragraphs 28 - 37 of this Standard when preparing its separate financial statements;
 - ✓ If the federal entity is an investment entity that prepares financial statements that include investments in controlled entities measured at fair value through surplus or deficit (see Appendix A to FGAAS 35 “Consolidated Financial Statements”), it shall apply the disclosure requirements relating to investment federal entities as prescribed in this Standard.
- C. An interest in joint arrangements held by a federal entity that but does not give joint control with parties to such arrangements, unless that interest:
 - ✓ Gives the federal entity significant influence over those joint arrangements; or
 - ✓ Is an interest in a structured entity.
- D. An interest held in another entity that has been recognised in accordance with FGAAS 41 “Financial Instruments”. However, a federal entity shall apply this Standard when any of the following two conditions are satisfied:
 - ✓ When the interest held is an interest in an associate or joint venture that, in accordance with FGAAS 36 “Investments in Associates and Joint Ventures”, is measured at fair value through surplus or deficit; or
 - ✓ When the interest held is an interest in a structured entity that is not consolidated.

Disclosing Information about Interests in Other Entities

5. To meet the objective of this Standard, a federal entity shall disclose the following; taking into consideration the quality and quantity of disclosures such that they present a clear image to users of financial statements:

A. The significant judgments and assumptions adopted in determining:

- ✓ The nature of the federal entity's interest in another entity or arrangement;
- ✓ The type of joint arrangements in which the federal entity has an interest (see paragraphs 8 - 10);
- ✓ That the federal entity is an investment entity, where applicable.

B. Information about interests in:

- ✓ Controlled entities (paragraphs 13 - 22);
- ✓ Joint arrangements and associates (paragraphs 23 - 26);
- ✓ Structured entities that are not consolidated (paragraphs 27 - 37);
- ✓ Non-quantifiable ownership interests (paragraphs 38 - 39);
- ✓ Controlling interests acquired with the intention of disposal (paragraphs 40 - 44).



6. If the disclosure requirements prescribed in this Standard, together with requirements prescribed in other Federal Government Accrual Accounting Standards are insufficient to meet the objective of this Standard, a federal entity shall disclose any additional information necessary to meet that objective.



7. A federal entity shall consider the level of detail required to be disclosed in order to meet the objective of this Standard, how much emphasis or assertion to place on each of the requirements of this Standard and the manner in which information is to be aggregated in the disclosures. The federal entity shall aggregate or disaggregate disclosures provided that useful information is not obscured by either aggregating insignificant amounts in a manner that would result in a significant sum or aggregating amounts that have different characteristics. It may be appropriate to aggregate and combine disclosed information according to, but without limitation, the type of activity, type of industry or geographical location.

Significant Judgments and Assumptions



8. A federal entity shall disclose, in its financial statements or another statement that uses the same terminology as financial statements, the methodology used to determine:
 - A. That the federal entity has control of another entity as described in FGAAS 35 “Consolidated Financial Statements”;
 - B. That the federal entity has joint control of joint arrangement or significant influence over another entity;
 - C. The type of joint arrangement (joint operation or joint venture);
9. The disclosures required by paragraph 8 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. In the absence of the above mentioned information about the methodology, financial statements shall be regarded as incomplete.



10. A federal entity shall apply the requirements of paragraph 8 by disclosing, for example, the factors considered in determining that:
 - A. The federal controls a controlled entity (or group of entities) where the interest in the federal entity is not evidenced by the holding of equity or debt instruments;
 - B. The federal entity does not control another entity (or group of entities) even though it holds more than half of the voting rights of that entity (or group of entities);
 - C. The federal controls another entity (or group of entities) even though it holds less than half of the voting rights of that entity (or group of entities);
 - D. The federal entity is an agent or a principal;
 - E. The federal entity does not have significant influence even though it holds 20% or more of the voting rights of another entity;
 - F. The federal entity has significant influence even though it holds less than 20% of the voting rights of another entity.

Federal Entity / Investment Entity Status

For more details about federal entities / investment entities, please refer to Appendix A to FGAAS 35 "Consolidated Financial Statements".



11. If a controlling federal entity is an investment federal entity / entity in accordance with Annex A to FGAAS 35 "Consolidated Financial Statements", it shall disclose information about significant judgments and assumptions it has made in determining that the federal entity / entity is an investment entity.



12. When a federal entity or an entity starts, or ceases, to be accounted for as an investment entity, it shall disclose the change in the investment entity's status and the reasons for that change. When a federal entity / entity is regarded as an investment entity, it shall disclose the change and the reasons therefor, as well as the effect of that change on the financial statements for the period presented. Such disclosures shall include:
 - A. The total fair value of the controlled entities as of the date of ceasing to be consolidated;
 - B. The total gain or loss calculated at the date of ceasing to be consolidated;
 - C. The item in the statement of financial performance in which the gain or loss referred to in paragraph B is recognised, if such gain or loss is not presented separately in the statement of financial performance.

Interests in Controlled Entities



13. A federal entity shall disclose information that enables users of financial statements to:
 - A. Understand the composition of the economic entity;
 - B. Understand non-controlling interests in the economic entity's activities and cash flows (see paragraph 15);
 - C. Evaluate and explain the nature and extent of the effect of significant restrictions on the economic entity's ability to use or access its assets and settle its liabilities (see paragraph 16);
 - D. Evaluate and explain the nature of, and changes in, the risks associated with the economic entity's interests in consolidated structured entities (see paragraphs 17 - 20);
 - E. Evaluate the consequences of changes in ownership interests that do not result in a loss of control (see paragraph 21);
 - F. Evaluate the consequences of losing control of a controlled entity during the reporting period (see paragraph 22).



14. When the financial statements of a controlled entity are as of a date or for a period that is different from that of the consolidated financial statements, a federal entity shall disclose:

- A. The date of the end of the reporting period of the financial statements of that controlled entity;
- B. The reason for using different dates or periods.

Non-controlling Interests in the Economic Entity's Activities and Cash Flows

15. A federal entity shall disclose the following for each of its controlled entities that have material non-controlling interests:

- A. The name of the controlled entity;
- B. The domicile and legal form of the controlled entity and the jurisdiction in which it operates;
- C. The proportion of non-controlling interests in the net assets of the controlled federal entity / entity;
- D. The proportion of voting rights of non-controlling interests in the controlled federal entity / entity, if different from the proportion to net assets above;
- E. The surplus or deficit allocated to non-controlling interests in the controlled federal entity / entity during the reporting period;
- F. Accumulated non-controlling interests in the controlled entity at the end of the reporting period;
- G. Dividends or other distributions paid to non-controlling interests in the controlled federal entity / entity;
- H. Summarised financial information about the controlled entity that enables users of financial statements to understand the extent of non-controlling interests in this controlled entity and their effect on its activities and cash flows. Such information may include, but is not limited to, information about short-term assets, long-term assets, short-term liabilities, long-term liabilities, revenue, surplus and deficit. Such summarised information shall be presented before making internal elimination and disposal entries.

The Nature and Extent of Significant Restrictions



16. With respect to the nature of restrictions imposed on an economic entity, the following shall be disclosed:

- A. Significant restrictions in binding arrangements (e.g., statutory, regulatory and contractual restrictions) on its ability to access or use the assets or to settle the liabilities of the economic entity, such as:
 - ✓ Those that restrict the ability of a controlling federal entity or its controlled entities to transfer cash or assets between entities within the economic entity.

- ✓ Guarantees or other conditions that may restrict dividends or any other distributions, loan payments or advances between entities within the economic entity.
- B. The nature and extent to which non-controlling interests can significantly restrict the ability to use or access the assets and settle the liabilities of the economic entity (such as the need for the approval of non-controlling interests to use an asset or to settle a liability).
- C. The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

The Nature of the Risks Associated with a Federal Entity's Interests in Consolidated Structured Federal Entities / Entities



17. A federal entity shall disclose the terms of any binding arrangements that may require the controlling entity or its controlled entities to provide financial support to a consolidated structured entity, even in circumstances that could result in a loss in the financial reports (e.g. liquidity arrangements or arrangements relating to obligations to purchase assets of the structured entity or provide financial support).



18. If controlling federal entity or any of its controlled entities has, without a binding arrangement to do so, provided financial or other support to a consolidated structured entity, the following shall be disclosed:

- A. The type and amount of support provided, and the situations in which financial support was provided to the structured entity;
- B. The reasons for providing the support.



19. If a controlling federal entity or any of its controlled entities has, without a binding arrangement to do so, provided financial or other support to an unconsolidated structured entity and that provision of support resulted in the supporting entity controlling the supported entity, the relevant factors that lead to this decision shall be disclosed.



20. A federal entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

Consequences of Changes in a Controlling Entity's Interest in a Controlled Entity that do not Result in a Loss of Control



21. A federal entity shall present a schedule showing the effects on owners of the controlling entity of any changes in the net assets of this entity.

Consequences of Losing Control of a Previously Controlled Entity During the Reporting Period



22. A federal entity shall disclose the gain or loss as a result of losing control, calculated in accordance with FGAAS 35 "Consolidated Financial Statements", where applicable, in addition to:

- A. The portion of that gain or loss attributable to measuring any investment retained in the previously controlled entity at its fair value at the date when control is lost;
- B. The item(s) in the statement of financial performance in which the gain or loss is recognised, if such gain or loss not presented separately in the statement of financial performance.

Interests in Joint Arrangements and Associates



23. A federal entity shall disclose information about joint arrangements and associates that enables users of financial statements to evaluate:
- A. The nature, extent and financial effects of the federal entity's interests in joint arrangements and associates, including the nature and effects of the federal entity's relationship with investors with joint control of, or significant influence over, joint arrangements and associates (see paragraphs 24 and 25); and
 - B. The nature of, and changes in, the risks associated with its interests in joint ventures and associates (see paragraph 26).

The Nature, Extent and Financial Effects of a Federal Entity's Interest in Joint Arrangements and Associates



24. With respect to joint arrangements and associates, a federal entity shall disclose:

- A. For each joint arrangement and associate that is material to the reporting federal entity:
 - ✓ The name of the joint arrangement or associate;
 - ✓ The nature of the federal entity's relationship with the joint arrangement or associate (by, for example, explaining the nature of the activities of the joint arrangement or associate and whether these activities are strategic to the federal entity's activities);
 - ✓ The domicile and legal form of the joint arrangement or associate and the jurisdiction in which it operates; and
 - ✓ The proportion of the federal entity's ownership interest or participating rights and, if different from these proportions, the proportion of its voting rights.
- B. For each joint venture and associate that is material to the reporting federal entity:
 - ✓ Whether the investment in the joint venture or associate is measured using the equity method or at fair value;
 - ✓ Summarised financial information about the joint venture or associate that enables users of financial statements to understand non-controlling interests in the controlled entity and its activities and cash flows. Such information may include, but is not limited to, information about short-term assets, long-term assets, short-term liabilities, long-term liabilities, revenue, surplus, deficit, depreciation, amortisation and interest charge;
 - ✓ The fair value of the federal entity's investments in the joint venture or associate, if there is a quoted market price for these investments and the federal entity accounts for them using the equity method.
- C. Financial information as specified for a federal entity's investments in joint ventures and associates that are not individually material:
 - ✓ In aggregate for all individually immaterial joint ventures; and
 - ✓ In aggregate for all individually immaterial associates. This aggregated information shall be disclosed separately from the aggregated information about joint ventures.
- D. The total aggregated carrying amount of the federal entity's interests in joint ventures and associates (that are individually immaterial) which are accounted for using the equity method. The aggregate amount of revenues, surplus or deficit, tax and pre-tax profit or loss as a result of the disposal of assets or settlement of liabilities from non-continuing operations, as applicable, shall also be disclosed.



25. A federal entity shall disclose:

- A. The nature and extent of any significant restrictions (e.g. restrictions resulting from binding or financing arrangements, statutory requirements between investors with

joint control of, or significant influence over, a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the federal entity in the form of cash, dividends or similar distributions, or to repay loans or advances made by the federal entity.

- B. When the financial statements of a joint venture or associate used in applying the equity method of accounting are as of a date or for a period that is different from that of the federal entity's financial statements, the federal entity shall disclose:
 - ✓ The date of the end of the reporting period of the financial statements of that joint venture or associate;
 - ✓ The reason for using different dates or periods.
- C. The federal entity's unrecognised share of losses of a joint venture or associate, for the reporting period cumulatively, if the federal entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method of accounting.

Risks Associated with a Federal Entity's Interests in Joint Ventures and Associates



26. A federal entity shall disclose:

- A. Undocumented commitments relating to its joint ventures separately from the other commitments. Such commitments may result in future cash outflows and may be in the form of a commitment to provide financing, render services or purchase interests from other entities;
- B. The contingent liabilities and contingent assets relating to the federal entity's investment in joint ventures or associates, separately from the contingent liabilities and contingent assets of the controlling entity (unless the probability of loss is remote).

Interests in Structured Entities that are Not Consolidated



27. A structured entity has some or all of the following characteristics:

- A. Has specified or restricted activities;
- B. Has a specified and explicit objective within the scope of its operations;
- C. Does not have sufficient funding for its operations without external support;
- D. Is financed through interim contractual instruments linked to its controlling entity;

A partnership between a federal entity and a private entity (for example) may constitute a structured entity, provided that the partnership is not a joint venture governed by binding arrangements;

28. The fact that an entity is financed by a federal entity is not, in itself, sufficient for classifying this entity as a structured entity.

29. A federal entity shall disclose information that enables users of financial statements to:

- A. Understand the nature and extent of the federal entity's interests in structured entities that are not consolidated;
- B. Explain the nature of, and changes in, the risks associated with these interests.

30. The disclosures required by paragraph (29 B) shall include information about a federal entity's exposure to risk from its previous involvement with structured entities that are not consolidated in previous periods, even if the entity no longer has any involvement by way of binding arrangement with the structured entity.

31. An investment federal entity need not provide the disclosures required by paragraph 29 for a structured entity that it controls but which is not consolidated.

Nature of Interests



32. A federal entity shall disclose quantitative and qualitative information about its interests in structured entities that are not consolidated, including, but not limited to, the nature, purpose and size of the activities of the structured entities and how they are financed.



33. If a federal entity does not present the required disclosures (as specified in paragraph 35) with respect to the sponsoring rights of a structured entity that is not consolidated (e.g. because it does not have an interest in the entity at the reporting date), the federal entity shall disclose the following information:

- A. How it has determined which structured entities it has sponsored;
- B. Revenues from those structured entities during the reporting period, and the types of these revenues;
- C. The carrying amount, at the time of transfer, of all assets transferred to those structured entities during the period.



34. A federal entity shall present the disclosure information in paragraph 33 (B) and 33 (C) in tabular format (unless another format is more appropriate) and shall classify its sponsoring activities into relevant categories.

Nature of Risks



35. A federal entity shall disclose the following information in tabular format, unless another format is more appropriate:
- A. The carrying amounts of the assets and liabilities recognised in the financial statements relating to interests in structured entities that are not consolidated;
 - B. The items in the federal entity's statement of financial position in which those assets and liabilities are recognised;
 - C. The amount that represents the federal entity's maximum exposure to loss from its interests in structured entities that are not consolidated, including how the maximum exposure to loss is determined. If a federal entity cannot determine its maximum exposure to loss, it shall disclose that fact and the reasons for it; and
 - D. A comparison of the carrying amounts of the assets and liabilities relating to the federal entity's interests in structured entities that are not consolidated and the federal entity's maximum exposure to loss from those interests.



36. If a federal entity has, without a binding arrangement to do so, provided support (financial or otherwise) to a structured entity that is not consolidated (for example, purchasing assets of the structured entity), the federal entity shall disclose:
- A. The type and amount of support provided and the situations in which the federal entity provided assistance in obtaining financial support;
 - B. The reasons for providing the support.



37. A federal entity shall disclose any current intentions to provide financial or other support to a structured entity that is not consolidated, or intentions to assist the structured entity in obtaining financial support. Such disclosure shall be made whether or not there are obligations under binding arrangements.

Non-quantifiable Ownership Interests

38. A federal entity shall disclose information that enables users of its financial statements to understand the nature and extent of any non-quantifiable ownership interests in other entities. If not already disclosed in accordance with the requirements of this Standard and other paragraphs, a federal entity shall disclose the following information with respect to non-quantifiable ownership interests:
- A. The name of the entity in which it has an interest;
 - B. The nature of its ownership interest in this entity.

Controlling Interests Acquired with the Intention of Disposal



39. Federal entities' responsibilities include ensuring the economic well-being within their jurisdictions. Therefore, they may intervene to prevent the consequences of failure of an entity. Such intervention may lead to a federal entity obtaining control of the entity exposed to risk, although it has no intention of maintaining control over that controlled entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal, the restructuring can occur over a period of one or more years and the federal entity may, therefore, retain some residual assets or liabilities at the end of the restructuring process. Therefore, federal entities, other than investment federal entities, shall, at the reporting date, disclose information about their interests in controlled entities, when they have the intention and actual will to dispose of such interests directly when control is established

40. A federal entity may acquire controlling interests in other entities, with the intention of disposing of all or part of that interest, in implementing Federal Government's policy objectives.



41. The following information about each entity referred to in paragraph 40 shall be disclosed in the notes to the financial statements:

- A. The name of the controlled entity and a description of its key activities;
- B. The reason for the acquisition and the factors considered in determining that control exists;
- C. The impact of consolidating the controlled entity within the controlling entity's consolidated financial statements, including the effect on assets, liabilities, revenue, expenses and net assets; and
- D. The current approach to disposal, and the expected method and timing of disposal.



42. The disclosures required by paragraph 42 shall be presented at each reporting date until the controlling entity disposes of its interests in the controlled entity or ceases to have the intention to dispose of those interests. In either case, the following shall be disclosed:

- A. The fact that there has been a disposal or change of intention by the controlling entity;
- B. The effect of the disposal or change of intention by the controlling entity on its consolidated financial statements.



43. Where other disclosures relating to paragraphs 42 and 43 are required by this Standard or other Federal Government Accrual Accounting Standards, a cross-reference to those other disclosures shall be provided.

Appendix A - Interests in Federal Entities that are Not Consolidated (Investment Entity - Annex A to FGAAS 35 "Consolidated Financial Statements)



1. An investment federal entity / entity that applies the exemption from consolidation in accordance with the conditions prescribed in FGAAS 35 "Consolidated Financial Statements", under which investments are accounted for at fair value through surplus or deficit, shall disclose this fact.
2. An investment federal entity shall disclose the following for each controlled entity that is not consolidated:
 - A. The name of the controlled entity;
 - B. The domicile and legal form of the controlled entity, and the jurisdiction in which it operates;
 - C. The proportion of net assets held by the federal entity and, if different, the proportion of voting rights.
3. If an investment federal entity also controls another investment federal entity, the controlling federal entity shall also disclose the investments controlled by its controlled federal entity. This disclosure may be made either in the financial statements of the controlling entity or those of controlled entities.
4. An investment federal entity shall disclose:
 - A. The nature and extent of any restrictions under binding arrangements (e.g. restrictions under contractual or statutory arrangements or borrowing arrangements) on the ability of controlled entities that are not consolidated to transfer funds to the investment federal entity in the form of cash dividends or any other distributions, or to repay loans and advances made by the investment entity.
 - B. Any current intention to provide financial or other support to a controlled entity that is not consolidated, including the obligation and intention to assist this controlled entity in obtaining financial support.
5. If an investment federal entity or any of its controlled entities has, without a binding arrangement to do so, provided support (financial or otherwise) to a controlled entity that is not consolidated (for example, purchasing assets of the controlled entity or assisting it in obtaining the required financial support), the entity federal shall disclose:
 - A. The type and amount of support provided and the situations in which financial support was provided to the structured entity;
 - B. The reasons for providing this support.
6. An investment federal entity shall disclose the terms of any binding arrangements that may require the controlling entity or its controlled entities to provide financial support to a controlled structured entity that is not consolidated, even in circumstances that could result

in a loss in the financial reports (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

7. If an investment federal entity or any of its controlled entities has, without a binding arrangement to do so, provided financial or other support to a structured entity that is not consolidated, the relevant factors that lead to this decision shall be disclosed, if the provision of this support results in the supporting entity controlling the supported entity,

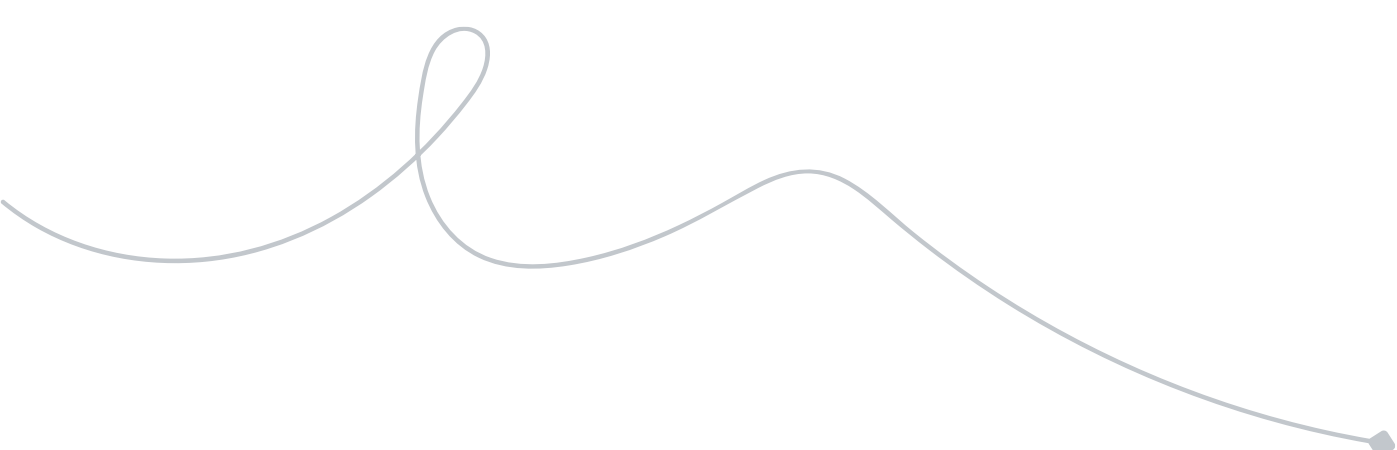
If a federal entity is the controlling entity of an investment federal entity, it shall disclose in its financial statements the information required by paragraphs (1 - 7 of Appendix A to this Standard) for controlled entities that are not consolidated.

The Nature, Extent and Financial Effects of a Federal Entity's Interest in Joint Arrangements and Associates

8. An investment federal entity is not required to provide disclosures in accordance with paragraph 24 of this Standard.

Interests in Structured Entities that are Not Consolidated

9. An investment federal entity is not required to provide disclosures in accordance with paragraph 29 of this Standard, but rather in accordance with paragraphs (1 - 7 of Appendix A to this Standard).



Standard 18 - Segment Reporting

Standard 18 - Segment Reporting

This Federal Government Accrual Accounting Standard was mainly developed based on the requirements of International Public Sector Accounting Standard 18 (IPSAS 18) which deals with the preparation and presentation of segment-specific reports. It is worth mentioning that some text of this international standard has been rephrased in line with the requirements of the UAE Federal Government.

The Standard for Segment Reporting - Table of Contents

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Objective



1. The objective of this Standard is to establish principles for reporting financial information by service or geographical segments. This Standard helps users of financial statements better understand a federal entity's performance and identify the resources allocated to support its major activities, while enhancing the transparency of financial reporting and enabling the federal entity to discharge its obligations.

Scope

2. This Standard applies to all federal entities covered by the Federal Government Accrual Accounting standards Manual, as detailed in the introduction thereto, that present their financial statements which comprise the statement of financial position, statement of financial performance, cash flows statement and statement of changes in net assets and makes them publicly available. For more information, please refer to FGAAS 1 "Presentation of Financial Statements".
3. Segment information shall only be presented in consolidated financial statements, if any. This Standard does not require sector information to be presented in separate financial statements of a federal entity within an economic entity.
4. Financial statements of various federal entities and the consolidated financial statements provide an overview of:
 - A. Controlled assets and liabilities;
 - B. Cost of services provided;
 - C. Revenue collected to finance the provision of services.

In most cases, the activities of a federal entity are so broad, and encompass so wide a range of different geographical regions, or regions with different socio-economic characteristics, that it is necessary to report disaggregated financial and non-financial information about particular segments of the federal entity to provide relevant information for accountability and decision making purposes.

Reporting by Segments



5. Federal entities shall identify their activities and present their financial reports in a manner that reflects budget classifications adopted by senior management, as well as any other users. The purposes of such classification include:
 - A. Evaluating the past performance of a federal entity and its achievement of its objectives and discharge of its administrative responsibilities;
 - B. Making decisions about the allocation of resources to separate segments by the federal entity.

Financial Reporting Structures



6. In most cases, financial information at whole-of-government level are aggregated and reported in a manner that reflects:
 - A. Major economic classifications of activities undertaken by the Federal Government, such as health, education, defense and social services (these classifications may reflect the Government Finance Statistics functional classifications of the government), and major trading activities undertaken by government business enterprises, such as state-owned power stations, banks and insurance entities; or
 - B. Portfolio responsibilities of individual ministers or members of executive government. These responsibilities often, but not always, reflect the economic classifications in Clause (a) above, and differences may occur because portfolio responsibilities may aggregate more than one of the economic classifications or span across those classifications.



7. Where activities are not identified as expected under paragraph 6, this Standard requires professional judgment in determining the activities which should be grouped and classified as separate segments and reported in the financial statements for accountability and decision-making purposes. Therefore, when preparing its financial statement, the reporting federal entity shall consider the following in determining the activities of its segments:
 - A. The objective of reporting financial information by segment;
 - B. The expectations of members of the community and their elected or appointed representatives regarding the key activities of the federal entity;
 - C. The qualitative characteristics of financial reporting, including the relevance, reliability, and comparability over time of financial information that is reported about the federal entity's different segments;
 - D. Whether a particular segment structure reflects the basis on which the governing body require financial information to enable it to assess the past performance of the federal entity in achieving its objectives and to make decisions about the allocation of resources to achieve the federal entity's objectives in the future.

Service Segments and Geographical Segments

8. The types of segments reported by a federal entity shall be classified as:
- A. Service segments: These are segments related to the duties for which the federal entity was created. Federal entities are usually run by service lines because this reflects:
 - ✓ The manner in which key outputs are determined;
 - ✓ Monitoring their achievements;
 - ✓ Determining entities' need of resources and budgets.
 - B. Geographical segments: These are segments related to particular areas which a federal entity was created to serve.

Determining Service Segments

9. When determining whether the outputs (e. g. goods and services) of a federal entity are related and should, therefore, be grouped as segments for financial reporting purposes, the following shall be considered:
- A. The primary operating objectives of the federal entity and the goods, services and activities that relate to the achievement of each of those objectives, and whether resources are allocated and budgeted on the basis of groups of goods and services;
 - B. The nature of the goods or services provided or activities undertaken;
 - C. The nature of the production process and/or service delivery, and distribution process or mechanism;
 - D. The characteristics of customers or consumers of the goods or services;
 - E. The manner in which the federal entity is managed or financial information is reported to senior management and the governing board;
 - F. If applicable, the nature of the regulatory environment, (for example, department or statutory authority) or sector of government (for example finance sector, public utilities, or general government).
10. A federal entity may be organised and report internally, as it may deem appropriate, based on applicable laws and rules on a regional basis, whether within or across national, local, state or other jurisdictional boundaries. In such cases, the internal reporting system shall reflect a geographical segment structure.

Determining Geographical Segments

11. Factors that should be considered in determining whether financial information should be reported on a geographical basis include:
- A. Similarity of economic, social and political conditions in different regions of the state;
 - B. Relationships between the primary objectives of the federal entity and the different regions of the state;

- C. Whether service delivery characteristics and operating conditions differ in different regions of the state;
- D. The manner in which the federal entity is managed or financial information is reported to senior managers and the governing board;
- E. Special needs, skills or risks associated with operations carried out in a particular area.

Multiple Segmentation



12. In some cases, a federal entity may report internally segment revenue, expense, assets and liabilities on the basis of more than one segment structure, for example by both service and geographical segments. Reporting on the basis of both service segments and geographical segments in the external financial statements often will provide useful information if the achievement of a federal entity's objectives is strongly affected both by the different products and services it provides and the different geographical areas to which those goods and services are provided. Similarly, at the whole Federal Government level, a government may adopt a basis of disclosure which:

- A. Reflects general government, public finance sector and trading sector disclosures;
- B. Supplements the general government sector analysis with, for example, segment disclosures by objective or function;

In these cases, the segments may be reported separately or as a matrix. In addition, a primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.

Reporting Structures Not Appropriate

13. In most case, segment activities will reflect budget classifications. However, in some cases a federal entity's internal reporting to the governing body and the senior financial manager may be structured to report on a basis which distinguishes revenues, expenses, assets and liabilities related to budget-independent activities from those of trading activities, or which distinguishes budget-dependent federal entities from government business enterprises. In such cases, it is unlikely that segment reporting would meet the objectives of this Standard as it does not provide users with relevant information.
14. In some cases, the disaggregated financial information may not be reported by service segment, geographical segment or by reference to other activities, but may be constructed to reflect only expenditures by nature (for example, wages, rent, supplies and capital acquisitions) on the basis of frameworks that are consistent with the budget provisions applicable to the entity. This may occur where the purpose of financial reporting to the governing body and senior management is to demonstrate compliance with spending mandates rather than the requirements of paragraph 5. When internal reporting (as may be deemed appropriate in line with applicable law and rules) is structured to report only compliance information, reporting externally on the same basis as the internal reporting will not meet the requirement of this Standard.

15. When a federal entity's internal reporting structure does not reflect the requirements of this Standard, the entity will, for external reporting purposes, need to identify segments which satisfy the definition of a segment in this Standard and disclose the information required under this Standard.

Segment Revenue, Expense, Assets and Liabilities

Segment Assets



16. Segment assets shall be treated in accordance with the following rules:
- If segment revenue includes interest or dividend revenue, its segment assets shall include the related receivables, loans, investments or other revenue-producing assets;
 - Segment assets shall include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue;
 - Segment assets are determined after deducting related liabilities that are reported as direct offsets in the federal entity's statement of financial position.



Example 18.1 - Examples of Segment Assets

- ✓ Current assets used in segment operating activities;
- ✓ Property, plant and equipment;
- ✓ Assets subject to finance leases;
- ✓ Intangible assets;
- ✓ Segment-related goodwill.

If an item of depreciation or amortisation is included in segment expenses, the related asset shall also be included in segment assets. Segment assets do not include assets used for general purposes of the federal entity or purposes of the head office.



Example 18.2 - Examples of Assets Used for General Purposes

- The office of the central administration and policy development unit of the Ministry of Education is not included in segments reflecting the delivery of primary, intermediate and secondary education services;
- The Cabinet or other general assembly buildings is not included in segments reflecting major functional activities such as education, health and defense when reporting at the whole of Federal Government level.

Segment Liabilities

17. If the segment expense of a particular segment includes interest expense, its segment liabilities shall also include interest-bearing liabilities.



Example 18.3 - Examples of Segment Liabilities

- ✓ Trade and other payables;
- ✓ Accrued liabilities;
- ✓ Advances from members of the community for the provision of goods and services;
- ✓ Product warranty provisions arising from any commercial activities of the federal entity;
- ✓ Other claims relating to the provision of goods and services.

Segment liabilities do not include borrowings, liabilities related to right-of-use assets, and other liabilities that are incurred for financing rather than operating purposes.

Segment Revenues

18. Segment revenues shall be treated in accordance with the following rules:

- A. Interest or dividend revenue, including interest accrued on advances or loans to other segments, unless the segment's operations are primarily of a financial nature, shall not be included;
- B. Gains from sales of investments or gains from extinguishment of debts, unless the segment's operations are primarily of a financial nature, shall not be included;
- C. Segment revenue shall include a federal entity's share of net surplus (deficit) of associates, joint ventures or other investments accounted for under the equity method only if those items are included in the federal entity's consolidated or total revenue.

Segment Expenses

19. Segment expenses shall be treated in accordance with the following rules:

- A. Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature, shall not be included;
- B. Losses from sales of investments or losses from extinguishment of debts, unless the segment's operations are primarily of a financial nature, shall not be included;
- C. A federal entity's share of net deficit or losses of associates, joint ventures or other investments accounted for under the equity method, shall not be included;

General administrative expenses, head office expenses and other expenses that arise at the federal entity level and relate to the federal entity as a whole shall be included. However, costs are sometimes incurred at the federal entity level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and can be directly attributed or allocated to the segment on a reasonable basis.

Attributing Items to Segments

20. When identifying the items that can be directly attributed, or reasonably allocated, to segments, a federal entity shall look at its internal financial reporting system as the starting point; as the amounts that have been identified for segments for internal financial reporting purposes can be directly or reasonably attributed to segments for the purpose of measuring segments revenue, expense, assets and liabilities.
21. In some cases, a revenue, expense, asset or liability may have been allocated to segments for internal financial reporting purposes on a basis that is understood by federal entity management but that could be deemed subjective or difficult to understand by external users of financial statements. Such an allocation would not constitute a reasonable basis under the definitions of segment revenue, expense, assets and liabilities in this Standard. Conversely, a federal entity may choose not to allocate some item of revenue, expense, asset or liability for internal financial reporting purposes, even though a reasonable basis for doing so exists. Therefore, items related to this paragraph shall be allocated pursuant to the definitions of segment revenue, expense, assets and liabilities in this Standard.
22. Public sector entities can generally identify (a) the costs of providing certain groups of goods and services or of undertaking certain activities and (b) the assets that are necessary for activities. This information is necessary for planning and control purposes. However, in many cases the operations of government agencies and other public sector entities are funded by appropriation on an item basis reflecting the nature of the major classes of expenses or expenditures. These appropriated items may not be related to specific service lines, functional activities or geographical regions. In some cases, it may not be possible to directly allocate revenue to a segment or to allocate it to a segment on a reasonable basis. Similarly, it may not be possible to directly or reasonably allocate some assets, expenses and liabilities to individual segments because they support a wide range of service delivery activities across a number of segments or are directly related to general administration activities which cannot be identified as a separate segment. The unattributed or unallocated revenue, expense, assets and liabilities would be reported as an unallocated amount in reconciling the segment disclosures to the aggregate revenue of the federal entity.
23. Federal entities and their agencies may enter into arrangements with private sector entities for the delivery of goods and services or to conduct other activities. In some cases, these arrangements take the form of a joint venture or an investment in an associate which is accounted for under the equity method of accounting. In this case, segment revenue shall include the segment's share of the net surplus (deficit) accounted for under the equity method in the federal entity's revenue, where it can be directly attributed or reliably allocated to the segment on a reasonable basis.

Segment Assets, Liabilities, Revenue and Expenses

24. When allocating costs to segments, relevant standards shall be referred to.

Example 18.4 - Allocating Expenses in Accordance with Standards

Examples of cost allocation under other Federal Government Accrual Accounting Standards include:

Federal Government Accrual Accounting Standard:

- ✓ FGAAS 12 - Inventory - Provides guidance for allocating costs to inventories;
- ✓ FGAAS 11 - Revenue from Construction Contracts - Provides guidance for allocating costs to contracts;
- ✓ FGAAS 2 - Cash Flows Statements - Provides guidance on whether bank overdrafts should be included as a component of cash or reported as loans.

25. FGAAS 35 "Consolidated Financial Statements" requires transactions and balances between controlled entities to be eliminated when preparing consolidated financial statements. However, segment revenue, expense, assets and liabilities should be determined before balances and transactions between entities within the economic federal entity are eliminated as part of the consolidation process, to the extent that such balances and transactions are between entities within a single segment.

Segment Accounting Policies

26. The accounting policies adopted in preparing a federal entity's separate financial statements shall be the same as those adopted in preparing the consolidated financial statements.
27. There is a presumption that the accounting policies that the federal entity and management have chosen to use in preparing the consolidated or entity-wide financial statements are those that the entity and the management believe are the most appropriate for external reporting purposes. Since the purpose of segment information is to help users of financial statements better understand and make more informed judgments about the entity as a whole, this standard requires the use, in preparing segment information, of the accounting policies that the federal entity and management have chosen for the preparation of the consolidated financial statement. That does not mean, however that the consolidated or entity accounting policies are to be applied to segments as if the segments were separate reporting entities. A detailed calculation done in applying a particular accounting policy at the entity-wide level may be allocated to segments if there is a reasonable basis for doing so.
28. Segment accounting policies include policies that are particularly related to segment reporting, such as inter-segment pricing method and the basis for allocating revenues and expenses to segments. In order to meet these requirements, segment specific policies may need to be disclosed.
29. A federal entity shall disclose additional segment information that is prepared on a basis other than the accounting policies adopted for the consolidated or federal entity's financial statements provided that:
- A. The information is relevant for performance assessment and decision making purposes;

- B. The basis of measurement for this additional information is clearly described.

Joint Assets



30. Assets that are jointly used by two or more segments should be allocated to segments, provided that their related revenues and expenses are also allocated to those segments. The way in which asset, liability, revenue and expense items are allocated to segments depends on such factors as the nature of those items and the activities conducted by the segment. It is neither possible nor appropriate to specify a single basis of allocation that should be adopted by all federal entities. Nor is it appropriate to force allocation of entity asset, liability, revenue and expense items that relate jointly to two or more segments, if the only basis for making those allocations is arbitrary or difficult to understand. At the same time, the definitions of segment revenue, segment expense, segment assets and segment liabilities are interrelated, and the resulting allocations should, therefore, be consistent. Accordingly, jointly used assets are allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments. For example, an asset is included in segment assets if, and only if, the related depreciation or amortisation is included in measuring segment expense.

Newly Identified Segments



31. New segments may be reported in financial statements. For example, a federal entity may change its internal reporting structure from a service segment structure to a geographical segment structure and management may find it appropriate that this segment structure also be adopted for external reporting purposes. A federal entity may also undertake significant new or additional activities, or increase the extent to which an activity previously operating as an internal support service provides services to external parties. In these cases, new segments may be reported for the first time in the financial statements. In such circumstances, this Standard requires that prior period comparative data be restated to reflect the current segment structure, where practicable.

Disclosures



32. Every federal entity shall disclose segment revenue and expense for each segment. Segment revenue from contributions, segment revenue from other external sources and segment revenue from transactions with other segments shall be reported separately.



33. A federal entity should disclose the total carrying amount of segment assets and liabilities for each segment.

34. A federal entity should disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.



35. A federal entity shall disclose the nature and amount of any items of segment revenue and segment expense that are of such size, nature or incidence that their disclosure is relevant to explain the performance of each segment for the period.

36. If a federal entity has calculated and disclosed a segment result, it shall not disclose any finance charges.

37. A federal entity shall, if necessary, disclose segment cash flows in accordance with FGAAS 2 "Cash Flow Statements" which requires a federal entity to present a cash flow statement that separately reports cash flows from operating, investment and financing activities.



38. A federal entity that does not apply paragraph 36 shall disclose, for each segment, the cash flows relating to:

- A. Segment expense for depreciation and amortisation of segment assets;
- B. Other significant non-cash expenses;
- C. Significant non-cash revenues that are included in segment revenue.

This will enable users to determine the major sources and uses of cash with respect to segment activities for the period.



39. A federal entity should disclose for each segment the aggregate of the federal entity's share of the net surplus (deficit) of associates, joint ventures or other investments accounted for under the equity method if substantially all of those associates' operations are within that single segment. Each associate, joint venture or other investment accounted for under the equity method shall be assessed to determine whether substantially all of its operations are within a single segment.



40. Where the aggregate of a federal entity's share of net surplus (deficit) of associates, joint ventures or other investments accounted for under the equity method is disclosed by segment, the total investments in those associates and joint ventures shall also be disclosed by segment.



41. A federal entity shall present a reconciliation between the information disclosed for segments and the aggregated information in the consolidated or federal entity's financial statements. Segment revenue shall be reconciled to the federal entity's total revenue from external sources (including disclosure of the amount of the federal entity's total revenue from external sources not included in any segment revenue). Segment expense shall also be

reconciled to federal entity's expense in a comparable manner, and segment assets and liabilities shall be reconciled to federal entity's assets and liabilities.

Additional Segment Information



42. The disclosure of minimum information about service segments and geographical segments is likely to be useful to users for accountability and decision-making purposes. Therefore, if a federal entity reports segment information on the basis of:
- A. The major goods and services the federal entity provides, the programs it operates, the activities it undertakes or other service segments, it is also encouraged by this Standard to report the following for each geographical segment:
 - ✓ Segment expense;
 - ✓ Total carrying amount of segment assets;
 - ✓ Total expenditure during the period to acquire segment assets that are expected to be used during more than one period; and
 - B. Geographical segments or another basis not encompassed by (A), the federal entity is encouraged by this Standard to report the following segment information for each service segment:
 - ✓ Segment expense;
 - ✓ Total carrying amount of segment assets; and
 - ✓ Total expenditure during the period to acquire segment assets that are expected to be used during more than one period.

Other Disclosure Matters



43. When measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured while considering the nature of each transfer. The nature of inter-segment transfers or any changes to it shall be disclosed in financial statements. A change in the measurement of transfers shall not be regarded as a change in an accounting policy and does not require the financial statements to be restated



44. Changes in accounting policies adopted for segment reporting that have a material effect on segment information shall be disclosed, and prior period segment information presented for comparative purposes shall be restated unless it is impracticable to do so. Such disclosure shall include a description of the nature of the change, the reasons for the change, the fact that comparative information has been restated or that it is impracticable to do so, and the financial effect of the change if it is reasonably determinable. If a federal entity changes the bases for classifying its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, then for the purpose of comparison the federal entity shall report segment data for both the old and the new bases of segmentation in the year in which it changes the identification of its segments. For more guidance, FGAAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" should be referred to.
45. Some changes in accounting policies relate specifically to segment reporting. Examples include changes in the classification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the

segment information reported but will not change aggregate financial information reported for the federal entity. To enable users to understand the changes, prior period segment information that is included in the financial statements for comparative purposes is restated, if practicable, to reflect the new accounting policy.

46. Unless disclosed in the financial statements or elsewhere in the annual report, a federal entity should indicate:
- A. The types of goods and services included in each reported service segment;
 - B. The composition of each reported geographical segment;
 - C. If neither a service nor geographical basis of segmentation is adopted by the federal entity, the nature of the segment and activities encompassed by it.

Segment Operating Objectives

47. Unless otherwise disclosed in the financial statements or elsewhere in the annual report, a federal entity is encouraged by this Standard to disclose the broad operating objectives established for each segment at the commencement of the reporting period and to comment on the extent to which those objectives were achieved.
48. To enable users to assess the performance of a federal entity in achieving its service delivery objectives, it is necessary to communicate those objectives to users. The disclosure of information about the composition of each segment, the service delivery objectives of those segments and the extent to which those objectives were achieved shall be disclosed to support this assessment. This information will also enable the federal entity to better discharge its accountability obligations. However, in many cases this information may be included in the annual report as part of the report of the governing body. In such cases, disclosure of this information in the financial statements is not necessary.

Transitional Provisions

Under FGAAS 33 “First-time Adoption of the Accrual Basis”, a federal entity adopting Federal Government Accrual Accounting Standards for the first time may change its accounting policies prior to the end of the three-year grace period as of the date of adoption of the Federal Government Accrual Accounting Standards in the preparation of financial statements. The federal entity shall apply Standard No. 34.1 - Interim Financial Statements prospectively when preparing interim financial statements.

Effective Date

The provisions of these Standards shall apply after the approval of the UAE Federal Government Accrual Accounting Standards.

The federal entity shall apply this standard to interim financial statements covering periods beginning on or after January 1, 2023.

Technical References

- IPSAS 34 - Separate Financial Statements;
- IAS 34 - Interim Financial Statements
- IPSAS 35 - Consolidated Financial Statements;
- IPSAS 36 - Investments in Associates and Joint Ventures;
- IPSAS 37 - Joint Arrangements;
- IPSAS 38 - Disclosure of Interests in Other Entities;
- IPSAS 18 - Segment Reporting.



Section - Public Sector Combinations

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to business combination of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version	March 2016	February 2017	Not applicable
Second version	November 2020	December 2020	The public sector combinations standard was added following the issuance of the International Public Sector Accounting Standard (IPSAS 40), and its implementation beginning in January 2020.
Fifth Version	August 2025		Introducing updates in line with recent amendments to the standards as follow: • Adding guidance under the "Leases in Which the Acquiree is the Lessee" in Standard 40 "Public Sector Combinations" for recognizing right-of-use assets and lease liabilities in business combinations in accordance with Standard 43 "Leases". • Adding guidance under "Assets Held for Sale" in Standard 40 "Public Sector Combinations" on measuring acquired non-current assets (or disposal groups) classified as held for sale. • Adding guidance under "Disclosure" in Standard 40 "Public Sector Combinations" on the treatment of goodwill classified as held for sale or derecognized during the reporting period in accordance with Standard 44 " Non-current Assets Held for Sale and Discontinued Operations".

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to public sector combination, by identifying the nature of the business to which this standard may apply. In addition, it provides all the basic conditions and steps for recognizing, presenting and disclosing the assets and liabilities resulting from these transactions in the financial statements.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Definitions

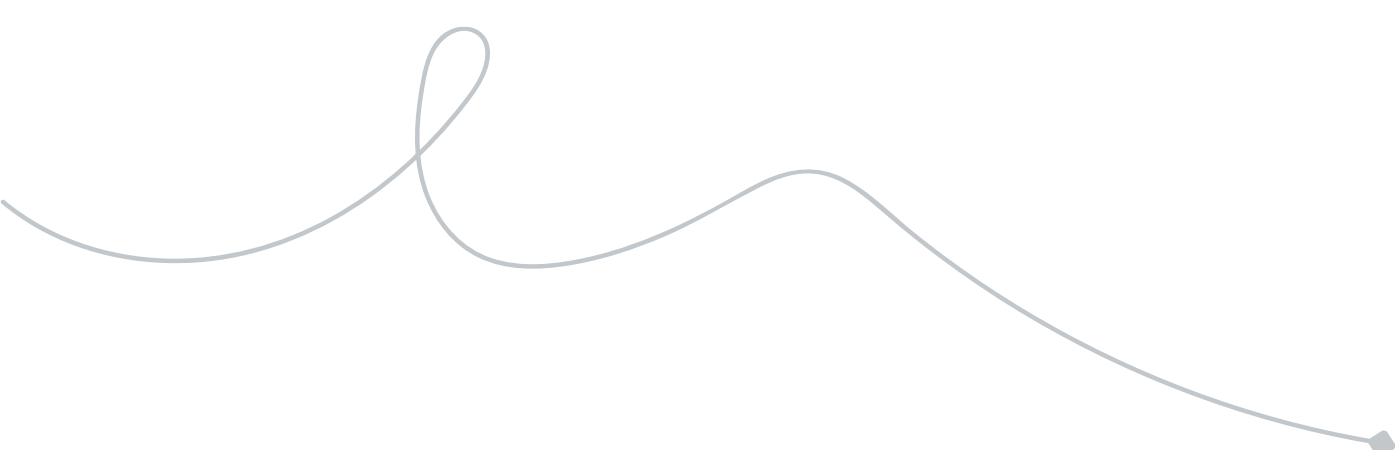


The following terms are used in this Standard with the meanings specified:

Term	Definition
Federal entities business combination	Is the bringing together of separate operations into one federal entity
Identifiable assets	An asset is identifiable if it either: A. Is separable, i.e., is capable of being separated or divided from the federal entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset, or liability, regardless of whether the federal entity intends to do so; or B. Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the federal entity or from other rights and obligations.
A mutual entity	Is an entity, other than an investor-owned entity, that provides dividends, lower costs, or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.
An operation	Is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving a federal entity's objectives, by providing goods and/or services.
Owner	Any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.
Federal entities business combination under common control	Is a business combination for federal entities in which all of the entities or operations involved are ultimately controlled by the same federal entity both before and after the business combination.
An amalgamation	An amalgamation gives rise to a resulting entity and is either: A. A federal entities business combination in which no party to the combination gains control of one or more operations; or B. A federal entities business combination in which one party to the combination gains control of one or more operations,

Term	Definition
	and in which there is evidence that the combination has the economic substance of an amalgamation.
The amalgamation date	Is the date on which the resulting federal entity obtains control of the combining operations.
A combining operation	Is an operation that combines with one or more other operations to form the resulting federal entity in an amalgamation.
A resulting federal entity	Is the entity that is the result of two or more operations combining in an amalgamation. A resulting federal entity is not initially a party to the business combination. A resulting federal entity may have the legal form of a new federal entity or may retain the legal identity of one of the combining operations. However, a resulting federal entity usually has the economic substance of a new federal entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting federal entity has the substance of a new federal entity
An acquired operation	Is the operation that the acquirer gains control of in an acquisition.
An acquirer	Is the federal entity that gains control of one or more operations in an acquisition.
An acquisition	Is a federal entity combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.
The acquisition date	Is the date on which the acquirer gains control of the acquired operation.
Contingent consideration	Is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
Equity interests	For the purposes of this Standard, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.

Term	Definition
Non-controlling Interest	Interest in a controlled entity / federal entity that is not attributable, directly or indirectly, to the controlling federal entity.



Standard 40 - Public Sector Combinations

Standard 40 - Public Sector Combinations

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 40 (IPSAS 40). It is worth mentioning that certain text of standard 40 have been rephrased in line with the requirements of UAE Federal Government.

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Objective

1. The objective of this Standard is to improve the relevance, faithful representation and comparability of the information that a federal entity provides in its financial statements about business combination and its effects. To accomplish that, this Standard establishes principles and requirements for how:
 - A. A federal entity classifies a business combination as an amalgamation or an acquisition;
 - B. A resulting entity recognizes and measures the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;
 - C. A resulting entity recognizes and measures components of net assets/ equity and other adjustments recognized in an amalgamation;
 - D. An acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed;
 - E. An acquirer recognizes and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and
 - F. A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a federal entities business combination.

Scope

2. This Standard applies to federal entities covered by the Manual of Accrual Basis FGAAS as detailed in the Introduction thereto. A federal entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for federal entities business combination.
3. This Standard applies to a transaction or other event that meets the definition of a federal entities business combination. This Standard does not apply to:
 - A. The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
 - B. The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity shall identify and recognize the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, Tangible and Intangible Assets, in the second Section of FGAAS) and liabilities assumed. Such a transaction or event does not give rise to goodwill.
 - C. The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity shall identify and recognize the individual liabilities assumed in accordance with the requirements of FGAAS 19, "Provisions, Contingent Assets and Contingent Liabilities".

4. The requirements of this Standard do not apply to the acquisition by an investment federal entity, as defined in the Eight Section of FGAAS, rather, a federal entity recognizes and measures these investments at fair value with a surplus or deficit in accordance with the requirements of FGAAS 41 “Financial Instruments” at fair value.

Identifying Public Sector Combination



5. A federal entity shall determine whether a transaction or other event is a federal entities business combination by applying the definitions in this Standard, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the federal entity shall account for the transaction or other event in accordance with other FGAASs.

6. The circumstances in which a federal entities business combination might occur include:

- A. By mutual agreement; and
- B. By compulsion (for example by legislation).



7. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set of activities and related assets and/ or liabilities to qualify as an operation. For the purposes of this standard, the three elements of an operation are defined as follows:

- A. Input: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. For example: tangible and intangible assets, or rights to use non-current assets and intellectual property, the ability to obtain the right to use raw materials or necessary rights and employees.
- B. Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- C. Output: The result of inputs and processes applied to those inputs that provide, or have the ability to provide, economic returns (either by increasing revenues or reducing costs) or any other economic benefits to investors, other owners, members or participants.



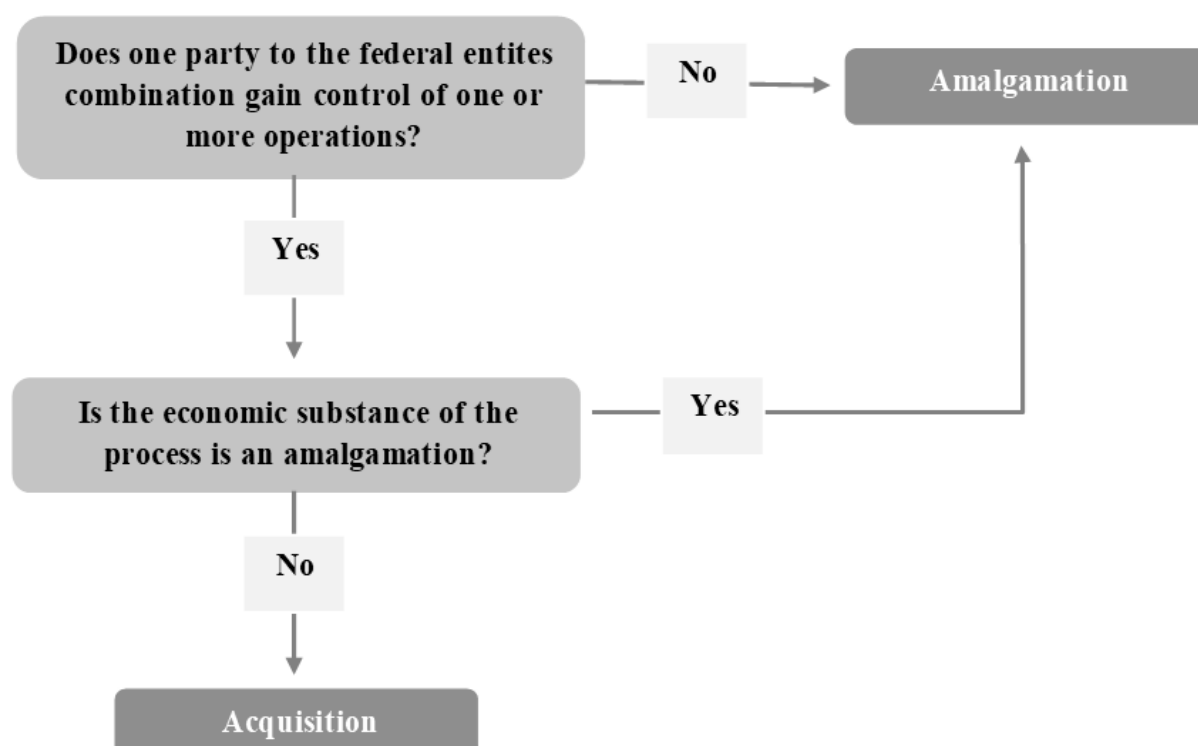
8. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/ or liabilities requires two essential elements-inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the transferor used in operating that operation if the entity that receives the operation or operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.
9. The nature of the elements of an operation varies by the structure of an entity's operations (activities) and nature, including the entity's stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and processes and sometimes only a single output (product). Nearly all operations also have liabilities, but an operation need not have liabilities.

10. An integrated set of activities and assets and/or liabilities in the development stage might not have outputs. In these cases, the entity that receives the operation should consider other factors to determine whether the set is an operation. Those factors include, but are not limited to, whether the set:
 - A. Has begun planned principal activities;
 - B. Has employees, intellectual property and other inputs and processes that could be applied to those inputs;
 - C. Is pursuing a plan to produce outputs; and
 - D. Will be able to obtain access to service recipients that will receive the outputs.
11. Not all of those factors need to be present for a particular integrated set of activities and assets and/or liabilities in the development stage to qualify as an operation.
12. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another federal entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.
13. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

Classification of Public Sector Combinations



14. If no party to a federal entities business combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation.
15. If one party to a federal entities business combination gains control of one or more operations as a result of the combination, a federal entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of one or more operations shall be classified as an acquisition, unless it has the economic substance of an amalgamation.
16. The diagram below summarizes the classification of business combinations according to the concept of control over the operations:



17. In determining the classification of the federal entities business combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting as described in FGAAS 1 “Presentation of Financial Statements” and that satisfies the qualitative characteristics (QCs).
18. The resulting entity evaluates the information related to the qualitative characteristics from the perspective of the users of the financial statements. This includes:
 - A. Proper representation;
 - B. Proper understanding;
 - C. Appropriate timing, and;
 - D. Comparability and verification.

To assess the economic substance of the combination, an entity considers the indicators relating to consideration and to the decision-making process in paragraphs 26 and 29. These indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation.

19. An analysis of the indicators relating to consideration and to the decision-making process in paragraphs 26 and 29 will usually produce a conclusive result and provide sufficient evidence about the economic substance of the federal entities business combination to determine whether the combination is an amalgamation. In such circumstances, the resulting classification and the associated accounting treatment will ensure that users have access to information that meets the objectives of financial reporting and that satisfies the QCs.
20. In exceptional circumstances, after applying the indicators in paragraphs 26 and 29, the results may be inconclusive or may not provide sufficient evidence about the economic

substance of the federal entities business combination. In such circumstances, a federal entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the QCs, having regard to paragraph 19- 45.

The economic substance



21. The economic substance of an amalgamation is usually that a new entity is formed, irrespective of the legal form of the resulting entity. This applies equally to a combination in which one party to the combination gains control of one or more operations. If the economic substance of a federal entities' combination is that one of the parties to the combination continues to exist, this may provide evidence that the economic substance of the combination is that of an acquisition.
22. An amalgamation does not give rise to a controlling entity/controlled entity relationship between parties to a combination. If, following the combination, any of the operations operate as controlled entities of a party to the combination, this may provide evidence that the economic substance of the combination is that of an acquisition.
23. An acquisition is usually a mutual agreement between two or more parties, and usually has commercial substance. However, the federal entity, as a party to the combination may be able to impose a business combination on other federal entity. Where this results in the federal entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probable that the economic substance of the federal entities combination is that of an acquisition. Where the federal entity does not gain access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction, it is probable that the economic substance of the federal entities' combination is that of an amalgamation.
24. Where, after consideration of the indicators and the nature of the federal entities combination, there is insufficient evidence that the federal entities combination has the economic substance of an amalgamation, the combination shall be classified as an acquisition.

Indicators that May Provide Evidence that the Combination is an Amalgamation

Indicators Relating to Consideration

25. The payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of the public sector combination is an acquisition.



26. The payment of consideration that is not intended to compensate those for giving up their entitlement to the net assets of an operation, but is, for example, intended to reimburse them for costs incurred in effecting the federal entities combination, may provide evidence that the economic substance of the combination is that of an amalgamation. Consequently, The following indicators may provide evidence that the combination is an amalgamation:

- A. Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement.

- B. Consideration is not paid to those with an entitlement to the net assets of a transferred operation.
 - C. Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity.
27. Where a federal entities combination does not include the payment of consideration, an entity considers the reasons why no consideration has been paid. If the former owner has given up their entitlement to the net assets of an operation, or has had their entitlement extinguished through compulsion (for example, in an uncompensated seizure), there may be evidence that the combination is an acquisition.
28. Where a federal entities combination does not include the payment of consideration because there is no party with an entitlement to the net assets of an operation, the economic substance of the combination will usually be that of an amalgamation.



Example 40.1 - Classification of Business Combination

Event:

The Federal Government has enacted a decree to combine the operations of the Heritage Authority and the Antiquities Authority under a new name, the Heritage and Antiquities Authority.

Classification:

The business combination is classified as an amalgamation for the following reasons:

- Consideration is not paid to those with an entitlement to the net assets of a transferred operation.
- Formation of a new resulting entity.



Example 40.2 - Classification of Business Combination

Event:

The Ministry of Health has combined the operations of a pharmaceutical facility to its business. Where it paid the owners for the continuation of the facility's operations within the scope of the Ministry of Health.

Classification:

The business combination is classified as an acquisition for the following reasons:

- Consideration is paid to those with an entitlement to the net assets of a transferred operation.
- Consideration is paid to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement.
- The combined business is controlled by one party (the acquirer: the Ministry of Health)

Indicators Relating to the Decision-Making Process

29. The following indicators may provide evidence that the combination is an amalgamation:

- A. A federal entities' business combination is imposed by a third party without any party to the combination being involved in the decision-making process;
- B. A federal entities' business combination under common control occurs.

30. An acquisition usually requires the voluntary participation of all the parties to the combination. Consequently, where a business combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the economic substance of the combination is an amalgamation.



31. The parties to the business combination will be able to influence the terms of the combination to different degrees even when the combination is imposed by a third party. As the degree of influence the parties to the combination have increases, particularly the influence of the party that gains control of one or more operations, it becomes less likely that a conclusion regarding the economic substance of the combination can be drawn.



Example 40.3 - Classification of Business Combination

The business combination may be mandated by a law or decree by the Federal Government while allowing the parties to determine the terms of the combination. In this case, the economic substance of this combination is determined by the terms that the parties have agreed upon.

32. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this does not provide evidence that the economic substance of the combination is that of an amalgamation.



Example 40.4 - Classification of Business Combination

The Federal Government may decide to nationalize a private sector entity, contrary to the wishes of the shareholders. The fact that the Government (a party to the combination) is able to impose the nationalization, for example through legislation, does not provide evidence that the economic substance of the combination is an amalgamation. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this provides evidence that the economic substance of the combination is that of an acquisition.

33. Where a business combination for Federal Government entities takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. Federal entities business combinations under common control are often instigated by the controlling entity, and the controlling entity will often determine the terms of the combination.



Example 40.5 - Classification of Business Combination

The Federal Government may decide to combine two ministries for administrative or political reasons and specify the terms of the combination. In such circumstances, the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. This provides evidence that the economic substance of the combination is an amalgamation.

34. In some circumstances, two operations under common control may agree to combine voluntarily. However, this decision will usually be subject to the approval of the controlling entity, whether this approval is given explicitly or not. Where the approval of the controlling entity is required, this provides evidence that the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. Consequently, this provides evidence that the economic substance of the combination is that of an amalgamation.
35. Only where there is no evidence that the controlling entity is involved in the business combination, either by instigating the combination, determining the terms of the combination, or approving (whether explicitly or implicitly) the combination, will there be no evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the federal entity considers all other factors in determining the classification of the business combination.

Indicators Relating to Other Matters

36. Where an analysis of the indicators relating to consideration and the decision- making process produces inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, a federal entity considers which classification and resulting accounting treatment would provide information that best aligns with the objectives of the financial statements. Determining the classification of a business combination can significantly affect the preparation of the financial statements. Thus, it is important to consider the information each classification provides and the main users of that information.
37. The modified pooling of interests method (used in accounting for amalgamation) views the combination from the perspective of each of the combining operations and their owners or constituents who are uniting their interests in the resulting entity. Using the modified pooling of interests method of accounting, the combining operations measure the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. Such information may assist users in assessing the

performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods. However, this comparability may be reduced where adjustments to achieve consistent accounting policies are required. It does not include information about the market's expectation of the value of the future cash flows associated with assets and liabilities, other than assets and liabilities recorded at fair value prior to the date of the amalgamation.

38. The acquisition method (used in acquisition accounting) views a combination from the perspective of the acquirer. The acquirer gains or controls net assets and recognizes in its financial statements the assets acquired and liabilities assumed, including those not previously recognized by the acquired operation. Such information assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities. The resulting entity shall measure assets and liabilities from the acquired operation at fair value. This does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Further, acquisition may result in the immediate recognition of a gain or loss through surplus or deficit.

39. The following table summarizes the information provided by each method:

Method	Modified pooling of interests	Acquisition
Perspective	Perspective of each of the combining operations and their owners or constituents.	Perspective of the acquirer.
Financial Statements Users	Assists users of the financial statements in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.	Assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments.
Basis of measurement	Measures the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.	Measures the assets and liabilities of the acquired operation at fair value but does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Includes information about the market's expectation of the value of the future cash flows

Method	Modified pooling of interests	Acquisition
		associated with those assets and liabilities.
Comparability of operating results of prior periods	May facilitate the comparison of operating results with prior periods. Comparability may be reduced where adjustments to achieve consistent accounting policies are required.	Difficult to compare operating results with prior periods.

40. A federal entity also considers the constraints on information included in general purpose financial reports, which are materiality, cost-benefit and the balance between the qualitative characteristics (QCs).
41. When considering the classification of a business combination, some qualitative characteristics (QCs) will be more significant than others. For example, timeliness will be less significant than understandability when considering whether a combination is an amalgamation or an acquisition.

Accounting for Amalgamations

42. A resulting federal entity shall account for each amalgamation by applying the “modified pooling of interests” method of accounting.

The Modified Pooling of Interests Method of Accounting



43. Applying the modified pooling of interests method of accounting requires:

- A. Identifying the resulting entity from amalgamation;
- B. Determining the amalgamation date;
- C. Recognizing and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in FGAASs; and
- D. Recognizing and measuring the components of net assets/ equity and other adjustments from an amalgamation.

Identifying the Resulting Entity

44. For each amalgamation, a resulting federal entity shall be identified.

45. This Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." The resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation.

Determining the Amalgamation Date

46. The resulting entity shall identify the amalgamation date, which is the date on which it obtains control of the combining operations.

47. The date on which the resulting entity obtains control of the combining operations may be the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations.

48. It is possible that the resulting entity will not receive legal title to the assets or assume legal responsibility for the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a different date. For example, legislation or a written agreement may provide that the resulting entity obtains control of the assets and liabilities of the combining operations on a specified date. A resulting entity shall consider all pertinent facts and circumstances in identifying the amalgamation date.

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling interests in the Combining Operations

Recognition

49. As of the amalgamation date, the resulting entity shall recognize the identifiable assets, liabilities and any non-controlling interests that are recognized in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets and liabilities received is subject to the conditions specified in paragraphs 50-51.

Recognition Conditions

50. The effects of all transactions between the combining operations are eliminated, whether automatically or not, in preparing the financial statements of the resulting entity.



Example 40.6 - Elimination of Transactions between Combining Operations - Automatic

One combining operation (federal entity) provided services for a fee to another combining operation (federal entity) prior to the amalgamation date.

Treatment:

The revenue of the combining operation that provided the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The expense of the combining operation receiving the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The resulting entity will recognize both amounts in net assets/ equity as the effect of the transaction has been automatically eliminated.



Example 40.7 - Elimination of Transactions between Combining Operations - Non-Automatic

One combining operation (federal entity) has recognized an asset, and another combining operation (federal entity) has recognized a corresponding liability as a result of the transaction between two combining operations.

Treatment:

Elimination may not take place automatically. The resulting entity eliminates both the asset and the liability, and recognizes any difference between the asset and liability in net assets/ equity.



51. To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the FGAAS 1 "Presentation of Financial Statements" at the amalgamation date.



Example 40.8 - Recognition of Assets and Liabilities

Costs that the resulting entity expects, but is not obliged, to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the amalgamation date. Therefore, the resulting entity does not recognize those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognizes those costs in its post-combination financial statements in accordance with other FGAASs.

Classifying or Designating Assets and Liabilities in an Amalgamation

52. At the amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations. A resulting entity shall not adopt different classifications or designations on initial recognition, even if this is permitted by other FGAASs.
53. In some situations, FGAASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the resulting entity shall make on the basis of the classifications or designations previously applied by the combining operations include but are not limited to:
- A. Classification of particular financial assets and liabilities as measured at fair value or at amortized cost, or as a financial asset measured at fair value through net assets/equity, in accordance with FGAAS 41, "Financial Instruments.
 - B. Designation of a derivative instrument as a hedging instrument in accordance with FGAAS 41; and
 - C. Assessment of whether an embedded derivative should be separated from a host contract in accordance with FGAAS 41 (which is a matter of 'classification' as this Standard uses that term).

Measurement

54. The resulting entity shall measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirements of paragraph 55.
55. As of the amalgamation date, the resulting entity shall adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.
56. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of FGAASs.
57. The resulting entity shall measure any non-controlling interests in a combining operation at their carrying amounts in the financial statements of that combining operation as of the amalgamation date, adjusted for the non-controlling interests' proportionate share of the adjustments made in accordance with paragraph 55.

Exceptions to the Recognition or Measurement Principles

58. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 59-61 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity shall account for those items by applying the requirements in paragraphs 59-61, which will result in some items being:

- A. Recognized either by applying recognition conditions in addition to those in paragraphs 50-51 or by applying the requirements of other FGAASs, with results that differ from applying the recognition principle and conditions.
- B. Measured at an amount other than their amalgamation date carrying amounts.

Exception to the Recognition Principle

Licenses and similar rights previously granted by one combining operation to another combining operation.

59. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset by the recipient combining operation shall be recognized by the resulting entity as an intangible asset. The license or similar right shall not be eliminated in accordance with paragraph 50.

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

60. Amalgamations involving federal entities may result in a tax authority forgiving amounts of tax due as part of the terms of the amalgamation. The resulting entity shall not recognize any taxation items that are forgiven as a result of the terms of the amalgamation.

Employee Benefits

61. The resulting entity shall recognize and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with FGAAS 39, Employee Benefits.

Recognizing and Measuring Components of Net Assets/ Equity Arising as a Result of an Amalgamation



62. Amalgamations do not give rise to goodwill, and consequently a resulting entity does not recognize goodwill arising from an amalgamation.
63. Where a combining operation has previously recognized goodwill as a result of a previous acquisition, the resulting entity recognizes this goodwill in its opening statement of financial position.
64. The resulting entity shall recognize within net assets/equity amounts equal and opposite to the following items:
- A. The carrying amounts of the combining operations' assets;
 - B. The carrying amounts of the combining operations' liabilities; and
 - C. The carrying amounts of the combining operations' non-controlling interests.
65. The resulting entity shall recognize within net assets/equity the corresponding adjustments in respect of:

- A. The elimination of transactions between combining operations in accordance with paragraph 50;
 - B. Adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies, in accordance with paragraph 55; and
 - C. Adjustments made in respect of the exceptions to the recognition and/or measurement principles, in accordance with paragraphs 59-61.
66. The resulting entity may present the amounts recognized within net assets/equity in accordance with paragraphs 64 and 65 as either:
- A. A single opening balance; or
 - B. As separate components of net assets/ equity.

Measurement Period



67. If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity shall retrospectively adjust the provisional amounts recognized at the amalgamation date to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the resulting entity shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the resulting entity receives the information it was seeking about facts and circumstances that existed as of the amalgamation date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the amalgamation date.
68. The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations will generally be available at the amalgamation date. However, this may not be the case where combining operations have previously prepared their financial statements using different accounting policies. Consequently, the measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognized for an amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations as of the amalgamation date in accordance with the requirements of this Standard.
69. The resulting entity recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by adjusting components of net assets/equity recognized in accordance with paragraphs 64-65. However, new information obtained during the

measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.



Example 40.9 - Provisions Adjustments

For example, the resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part, or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to the gain or loss resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

70. During the measurement period, the resulting entity shall recognize adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the amalgamation date. Thus, the resulting entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation or amortization recognized in completing the initial accounting.
71. After the measurement period ends, the resulting entity shall revise the accounting for an amalgamation only to correct an error in accordance with FGAAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".

Amalgamation-Related Costs



72. Amalgamation-related costs are costs the resulting entity or combining operations incur to effect an amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining operations shall account for amalgamation-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with FGAAS 41, "Financial Instruments".

Subsequent Measurement and Accounting

73. In general, a resulting entity shall subsequently measure and account for assets and liabilities received and equity instruments issued in an amalgamation in accordance with other applicable FGAASs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets received and liabilities assumed or incurred in an amalgamation:
 - A. Licenses and similar rights previously granted by one combining operation to another combining operation;
 - B. Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation; and
 - C. Income taxes (where not included in the terms of the amalgamation).

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation

74. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the right may be impaired.

A resulting entity that subsequently sells this license or similar right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation as a Result of an Amalgamation

75. A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an amalgamation, shall be reassessed in accordance with other FGAASs.



Example 40.10 - Provisions Adjustments

The Federal Government provided grants to those municipalities where the average household income is below a threshold. The Federal Government did an amalgamation of two municipalities, one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the amalgamation, the average household income of the new, combined municipality will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.

Treatment:

The resulting entity shall not account for any revisions to the grant amount as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other FGAASs.

Income Taxes (Where not Included in the Terms of the Amalgamation)

76. Amalgamations involving federal entities may result in a tax authority forgiving amounts of tax subsequent to the amalgamation. The resulting entity shall account for the tax forgiven prospectively in accordance with the relevant FGAAS.

Presentation of Financial Statements



77. Except where a resulting entity is not a new entity following a federal entities' combination, the resulting entity's first set of financial statements following the amalgamation shall comprise:

- A. An opening statement of financial position as of the amalgamation date;
- B. A statement of financial position as at the reporting date;

- C. A statement of financial performance for the period from the amalgamation date to the reporting date;
 - D. A statement of changes in net assets/ equity for the period from the amalgamation date to the reporting date;
 - E. A cash flow statement for the period from the amalgamation date to the reporting date;
 - F. If the entity makes available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and
 - G. Notes, comprising a summary of significant accounting policies and other explanatory notes.
78. Where a resulting entity is not a new entity following a federal entities' combination, the resulting entity shall disclose:
- A. The amounts recognized of each major class of assets and liabilities, and components of net assets/ equity from combining operations included in the resulting entity;
 - B. Any adjustments made to components of net assets/ equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and
 - C. Any adjustments made to eliminate transactions between the combining operations.
79. Subject to the requirements in paragraphs 84- 86, the resulting entity is permitted but not required to present financial statements for periods prior to the amalgamation date.
80. Where a resulting entity elects to present financial statements for periods prior to the amalgamation date, it shall disclose the information required by paragraph 84 (G).
81. Where the resulting entity does not elect to present financial statements for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining operations prior to the amalgamation by:
- A. Where financial statements have been issued for a reporting period ending immediately prior to the amalgamation date, directing the users of its financial statements to the financial statements issued on behalf of the combining operations.
 - B. Making the disclosures required by paragraph 84 (H).
82. To satisfy the requirements of the Federal Government, it may be necessary for the combining operations and/ or the resulting entity to present or disclose information in addition to that required by this Standard.
83. The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.



84. To meet the objective in paragraph 83, the resulting entity shall disclose the following information for each amalgamation that occurs during the reporting period:

- A. The name and a description of each combining operation.
- B. The amalgamation date.
- C. The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.
- D. The amounts recognized as of the amalgamation date for each major class of assets and liabilities transferred.
- E. The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:
 - ✓ To eliminate the effect of transactions between combining operations in accordance with paragraph 50; and
 - ✓ To conform to the resulting entity's accounting policies in accordance with paragraph 55.
- F. An analysis of net assets/ equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognized in accordance with paragraphs 64-65.
- G. If a resulting entity elects to present financial statements for periods prior to the amalgamation date, the resulting entity shall disclose the following information for each combining operation:
 - ✓ A statement of financial position as at the end of the prior period(s);
 - ✓ A statement of financial performance for the prior period(s);
 - ✓ A statement of changes in net assets/ equity for the prior period(s);
 - ✓ A cash flow statement for the prior period(s); and
 - ✓ Notes, comprising a summary of significant accounting policies and other explanatory notes.

The resulting entity shall not restate this information, but shall disclose the information on the same basis as used in the combining operations' financial statements. The resulting entity shall disclose the basis on which this information is presented.

- H. If, at the time the financial statements of the resulting entity are authorized for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:
 - ✓ The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analyzed in a manner appropriate to the entity's operations. The amounts of expense shall be analyzed using a classification based on either the nature of expenses or their function within the entity, whichever provides information

that is faithfully representative and more relevant, in accordance with paragraph FGAAS 1, "Presentation of Financial Statements".

- ✓ The amounts reported for each major class of assets and liabilities.
- ✓ The amounts reported in net assets/ equity.

The resulting entity is not required to disclose this information where it has elected to present financial statements for periods prior to the amalgamation date as specified in subparagraph (G) above.

85. The resulting entity shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.

86. To meet the objective in paragraph 85, the resulting entity shall disclose the following information:

- A. If the initial accounting for an amalgamation is incomplete for particular assets or liabilities, and the amounts recognized in the financial statements for the amalgamation thus have been determined only provisionally:
 - ✓ The reasons why the initial accounting for the amalgamation is incomplete;
 - ✓ The assets or liabilities for which the initial accounting is incomplete; and
 - ✓ The nature and amount of any measurement period adjustments recognized during the reporting period.
- B. If amounts of tax due are forgiven as a result of the terms of the amalgamation:
 - ✓ The amount of tax due that was forgiven; and
 - ✓ Where the resulting entity is the tax authority, details of the adjustment made to the receivable.

87. If the specific disclosures required by this and other FGAASs do not meet the objectives set out in paragraphs 83- 85, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.

Accounting for Acquisitions



88. An acquirer (federal entity) shall account for each acquisition by applying the acquisition method of accounting.

The Acquisition Method of Accounting



89. Applying the acquisition method of accounting requires:

- A. Identifying the acquirer;
- B. Determining the acquisition date;
- C. Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and
- D. Recognizing and measuring goodwill, a gain or a loss from an acquisition.

Identifying the Acquirer



90. For each acquisition, the party to the combination that gains control of one or more operations shall be identified as the acquirer.
91. The party to the combination that gains control of one or more operations is identified when determining the classification of the federal entities' combination in accordance with paragraphs 14- 20 in this Standard.

Determining the Acquisition Date

92. The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.



93. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration and/ or acquires the assets and assumes the liabilities of the acquired operation—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquired operation on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

Recognition

94. As of the acquisition date, the acquirer shall recognize, separately from any goodwill recognized, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 95 and 96.

Recognition Conditions

95. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in FGAAS 1, “Presentation of Financial Statements” at the acquisition date.



Example 40.11 - Accounting for Future Costs

Costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquired operation or to terminate the employment of or relocate an acquired operation's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the acquirer recognizes those costs in its post-combination financial statements in accordance with other FGAASs.

96. In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 136-138 to determine which assets acquired or liabilities assumed:
- ✓ Are part of the exchange for the acquired operation and;
 - ✓ Which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable FGAASs.
97. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquired operation had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a patent or a customer relationship, that the acquired operation did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

98. At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other FGAASs. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.
99. In some situations, FGAASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:
- A. Classification of particular financial assets and liabilities as measured at fair value through surplus or deficit or at amortized cost, or as a financial asset measured at fair value through net asset/equity in accordance with FGAAS 41, "Financial Instruments";
 - B. Designation of a derivative instrument as a hedging instrument in accordance with FGAAS 41; and
 - C. Assessment of whether an embedded derivative should be separated from a host contract in accordance with FGAAS 41 (which is a matter of 'classification' as this Standard uses that term).
100. This Standard provides two exceptions to the principle in paragraph 98:
- A. Classification of a lease contract in which the acquiree is the lessor as either an operating lease or a finance lease in accordance with FGAAS 43, "Leases"; and
 - B. The acquirer shall classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the

binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement



101. The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their **acquisition-date fair values**.

102. For each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- A. Fair value; or
- B. The present ownership instruments' proportionate share in the recognized amounts of the acquired operation's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by FGAASs.

103. Paragraphs 107-114 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

104. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 105-114 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 105-114, which will result in some items being:

- A. Recognized either by applying recognition conditions in addition to those in paragraphs 95-96 or by applying the requirements of other FGAASs, with results that differ from applying the recognition principle and conditions.
- B. Measured at an amount other than their acquisition-date fair values.

Exception to the Recognition Principle

Contingent Liabilities

105. FGAAS 19, "Provisions, Contingent Liabilities and Contingent Assets", defines a contingent liability as:

- A. A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- B. A present obligation that arises from past events, but is not recognized because:
 - ✓ It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ✓ The amount of the obligation cannot be measured with sufficient reliability.

106. The requirements in FGAAS 19 do not apply in determining which contingent liabilities to recognize as of the acquisition date. Instead, the acquirer shall recognize as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to FGAAS 19, the acquirer recognizes a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 141 provides guidance on the subsequent accounting for contingent liabilities.

Exceptions to Both the Recognition and Measurement

Employee Benefits

107. The acquirer shall recognize and measure a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with FGAAS 39, "Employee Benefits".

Indemnification Assets

108. The seller in an acquisition may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. In other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount.

109. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item.

Example 40.12 - Indemnification Assets

Event:

The Ministry of Health has acquired a private pharmaceutical company (the Company). The company's financial position included receivables amounting to AED 100,000 as of the acquisition date.

Example 40.12 - Indemnification Assets

The company has entered into an agreement with the Ministry stipulating that it be compensated for any amounts not collected later related to accounts receivable.

Treatment:

On the acquisition date, the Ministry of Health revalued the accounts receivable according to the acquisition accounting method. The fair value of the accounts receivable as of that date amounted to AED 80,000, as a result of the need for a provision of AED 20,000 against those receivables.

Accordingly, the Ministry of Health will recognize an **Indemnification Asset** of AED 20,000 on the acquisition date.

110. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognized at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset shall be recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 142 provides guidance on the subsequent accounting for an indemnification asset.

Leases in Which the Acquiree is the Lessee

111. The acquirer shall recognize right-of-use assets and lease liabilities for leases identified in accordance with FGAAS 43 in which the acquiree is the lessee. The acquirer is not required to recognize right-of-use assets and lease liabilities for:

- A. Leases for which the lease term (as defined in FGAAS 43) ends within 12 months of the acquisition date; or
- B. Leases for which the underlying asset is of low value (as described in FGAAS 43).

112. The acquirer shall measure the lease liability at the present value of the remaining lease payments (as defined in FGAAS 43) as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability, adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

Exceptions to the Measurement Principle**Reacquired Rights**

113. The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether

market participants would consider potential renewals of binding arrangements when measuring its fair value.

Assets Held for Sale

114. The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations at fair value less costs to sell.

Recognizing and Measuring Goodwill or Gain



115. The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (A) over (B) below:

- A. The aggregate of:
 - ✓ The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value;
 - ✓ The amount of any non-controlling interest in the acquired operation measured in accordance with this Standard; and
 - ✓ In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.
- B. The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

116. The acquirer shall recognize goodwill only to the extent that the acquisition will result in:

- A. The generation of cash inflows (such as the acquisition of a cash-generating operation); and/or
- B. A reduction in the net cash outflows of the acquirer.

117. An acquirer shall recognize any further excess of (A) over (B) in paragraph 115 above as a loss in surplus or deficit.

118. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred.

Bargain Purchases

119. Occasionally in a public sector combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 115 (B) exceeds the aggregate of the amounts specified in paragraph 115 (A). If that excess remains after

applying the requirements in paragraph 121, the acquirer shall recognize the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.

120. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in this Standard may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.
121. Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Standard requires to be recognized at the acquisition date for all of the following:
- A. The identifiable assets acquired and liabilities assumed;
 - B. The non-controlling interest in the acquired operation, if any;
 - C. For an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; and
 - D. The consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Consideration Transferred



122. The consideration transferred in an acquisition shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired operation and the equity interests issued by the acquirer. Examples of potential forms of consideration include cash, other assets, an operation or a controlled entity of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.
123. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition (for example, because the assets or liabilities were transferred to the acquired operation rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the acquisition.

Contingent Consideration

124. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.
125. The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as a component of net assets/equity on the basis of the definitions of an equity instrument and a financial liability in FGAAS 41, "Financial Instruments". The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 143 provides guidance on the subsequent accounting for contingent consideration.

Additional guidance on applying the acquisition method to certain types of public sector combinations

An Acquisition Achieved in Stages

126. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date.

Example 40.13 - Business Combination Achieved in Stages

On 31 December 2010, Entity A holds a 35 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This FGAAS refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.

127. In an acquisition achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognize the resulting gain or loss, if any, in surplus or deficit or in net assets/ equity, as appropriate.

An Acquisition Achieved without Involving the Transfer of Consideration

128. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those business combinations. Such circumstances include:

- A. The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
- B. Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.
- C. The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no quantifiable ownership interests in the acquired operation, either on the acquisition date or previously.

129. In an acquisition achieved by contract alone, the acquirer shall attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognized in accordance with this Standard. In other words, the quantifiable ownership interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the quantifiable ownership interests in the acquired operation are attributed to the non-controlling interest.

Measurement Period

130. If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer shall report in its financial statements provisional

amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

131. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for an acquisition. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:

- A. The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;
- B. The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);
- C. In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and
- D. The resulting goodwill, loss or gain on a bargain purchase.

132. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later.



Example 40.14 - Changes to Provisional Amounts

Event:

Ministry of Education has acquired a private school and acquired all its assets. The fair value of laboratory equipment at the school was set at AED 100,000. The Ministry sold the laboratory equipment immediately after the acquisition date for a value of AED 600,000.

Outcome:

Example 40.14 - Changes to Provisional Amounts

Sale of assets within a short period of the acquisition date, at a value that is materially different from the fair value, indicates that an error in the fair value recognized at the acquisition date is likely. Accordingly, the Ministry adjusts the fair value as of the acquisition date.

133. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.
134. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.
135. After the measurement period ends, the acquirer shall revise the accounting for an acquisition only to correct an error in accordance with FGAAS 3.

Determining what is Part of the Acquisition Transaction

136. The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the negotiations that is separate from the acquisition. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired and liabilities assumed in the exchange for the acquired operation. Separate transactions shall be accounted for in accordance with the relevant FGAASs.
137. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquired operation (or its former owners) before the acquisition, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:
- A. A transaction that in effect settles pre-existing relationships between the acquirer and acquired operation;
 - B. A transaction that remunerates employees or former owners of the acquired operation for future services; and
 - C. A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Acquisition-Related Costs

138. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with FGAAS 41, "Financial Instruments".

Subsequent Measurement and Accounting



139. In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred, and equity instruments issued in an acquisition in accordance with other applicable FGAASs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:

- A. Reacquired rights;
- B. Contingent liabilities recognized as of the acquisition date;
- C. Indemnification assets;
- D. Contingent consideration; and

Reacquired Rights

140. A reacquired right recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Contingent liabilities

141. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:

- A. The amount that would be recognized in accordance with FGAAS 19; and
- B. The amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with FGAAS 9, "Revenue from Exchange Transactions".

Indemnification Assets

142. At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability of the indemnification asset. The acquirer shall derecognize

the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent Consideration

143. Some changes in the fair value of contingent consideration that the acquirer recognizes after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 130-134. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

- A. Contingent consideration classified as a component of net assets/ equity shall not be remeasured and its subsequent settlement shall be accounted for within net assets/ equity.
- B. Other contingent consideration that is within the scope of FGAAS 41 shall be measured at fair value and changes in fair value shall be recognized in surplus or deficit.

Disclosures

144. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:

- A. During the current reporting period; or
- B. After the end of the reporting period but before the financial statements are authorized for issue.



145. To meet the objective in paragraph 144, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

- A. The name and a description of the acquired operation.
- B. The acquisition date.
- C. The percentage of voting equity interests or equivalent acquired.
- D. The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.
- E. A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining the operations of the acquired operation and the acquirer. intangible assets that do not qualify for separate recognition or other factors.

- F. The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
- ✓ Cash;
 - ✓ Other tangible or intangible assets, including an operation or controlled entity of the acquirer;
 - ✓ Liabilities incurred, for example, a liability for contingent consideration; and
 - ✓ Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.
- G. For contingent consideration arrangements and indemnification assets:
- ✓ The amount recognized as of the acquisition date;
 - ✓ A description of the arrangement and the basis for determining the amount of the payment; and
 - ✓ An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
- H. For acquired receivables:
- ✓ The fair value of the receivables;
 - ✓ The gross amounts receivable in accordance with a binding arrangement; and
 - ✓ The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.
- The disclosures shall be provided by major class of receivable, such as loans, leases and any other class of receivables.
- I. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.
- J. For each contingent liability recognized, the information required in FGAAS 19. If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:
- ✓ The information required by FGAAS 19; and
 - ✓ The reasons why the liability cannot be measured reliably.
- K. The total amount of goodwill that is expected to be deductible for tax purposes.
- L. For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the acquisition:
- ✓ A description of each transaction;
 - ✓ How the acquirer accounted for each transaction;
 - ✓ The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and
 - ✓ If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

- M. The disclosure of separately recognized transactions shall include the amount of acquisition-related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of financial performance in which those expenses are recognized. The amount of any issue costs not recognized as an expense and how they were recognized shall also be disclosed.
- N. In a bargain purchase:
- ✓ The amount of any gain recognized in accordance and the line item in the statement of financial performance in which the gain is recognized; and
 - ✓ A description of the reasons why the transaction resulted in a gain.
- O. For each acquisition in which the acquirer holds less than 100 percent of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:
- ✓ The amount of the non-controlling interest in the acquired operation recognized at the acquisition date and the measurement basis for that amount; and
 - ✓ For each non-controlling interest in an acquired operation measured at fair value, the valuation technique(s) and significant inputs used to measure that value.
- P. In an acquisition achieved in stages:
- ✓ The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and
 - ✓ The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition and the line item in the statement of financial performance in which that gain or loss is recognized.
- Q. The following information:
- ✓ The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the acquisition date included in the consolidated statement of financial performance for the reporting period; and
 - ✓ The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period. If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable.
146. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph 145 (E)- (Q).
147. If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph 145 unless the initial accounting for the acquisition is incomplete at

the time the financial statements are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

148. The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods.

149. To meet the objective in paragraph 148, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

- A. If the initial accounting for an acquisition is incomplete for particular assets, liabilities, non- controlling interests or items of consideration and the amounts recognized in the financial statements for the acquisition thus have been determined only provisionally:
 - ✓ The reasons why the initial accounting for the acquisition is incomplete;
 - ✓ The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and
 - ✓ The nature and amount of any measurement period adjustments recognized during the reporting period.
- B. For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
 - ✓ Any changes in the recognized amounts, including any differences arising upon settlement;
 - ✓ Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
 - ✓ The valuation techniques and key model inputs used to measure contingent consideration.
- C. For contingent liabilities recognized in an acquisition, the acquirer shall disclose the information required by FGAAS 19 for each class of provision.
- D. A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:
 - ✓ The gross amount and accumulated impairment losses at the beginning of the reporting period.
 - ✓ Additional goodwill recognized during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with FGAAS 44.
 - ✓ Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with the relevant international or national accounting standard dealing with income taxes.
 - ✓ Goodwill included in a disposal group classified as held for sale in accordance with FGAAS 44 and goodwill derecognized during the reporting period

without having previously been included in a disposal group classified as held for sale.

- ✓ Impairment losses recognized during the reporting period.
- ✓ Net exchange rate differences arising during the reporting period.
- ✓ Any other changes in the carrying amount during the reporting period.

E. The gross amount and accumulated impairment losses at the end of the reporting period.

F. The amount and an explanation of any gain or loss recognized in the current reporting period that both:

- ✓ Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was affected in the current or previous reporting period; and
- ✓ Is of such a size, nature, or incidence that disclosure is relevant to understanding the combined entity's financial statements.

150. If the specific disclosures required by this and other FGAASs do not meet the objectives set out in this Standard, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

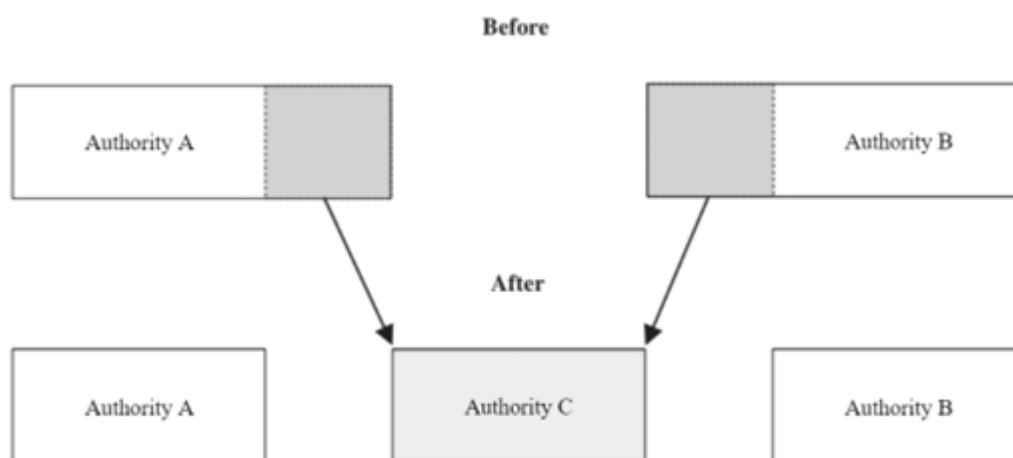
Appendix A- Illustrative Scenarios for the Classification of Public Sector Combination

1. The following scenarios illustrate the process for classifying federal entities business combination. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying this Standard 40.
2. Each scenario is illustrated by a diagram. Where a business combination for federal entities involves operations which form part of an economic entity, but not the whole economic entity, the operations that are involved in the combination, and the entity that is formed by the combination, are shaded in the diagram. Where more than one reporting entity is included in an economic entity, the boundary of the economic entity is shown by a dotted line.



Scenario 1: Reorganization of Federal Government by Rearranging Territorial Boundaries

3. The following diagram illustrates the creation of a new authority by combining some operations from two existing authorities.



4. In this scenario, the territorial boundaries of two existing authorities, Authority A and Authority B, are redrawn through legislation; the Federal Government does not control Authority A or Authority B. Responsibility for part of each authority's former territory is transferred to a new authority, Authority C. Operations in respect of the transferred territory are combined to form Authority C.
5. Authority A and Authority B remain otherwise unchanged and retain their governing bodies. A new governing body (unrelated to the governing bodies of Authority A and Authority B) is elected for Authority C to manage the operations that are transferred from the other authorities.
6. The creation of Authority C is a Business combination for federal entities. In determining whether this should be classified as an amalgamation or an acquisition, the first question to

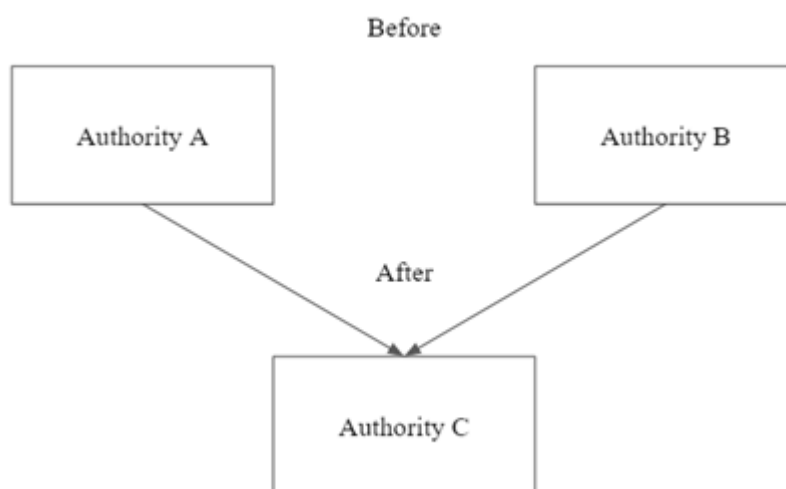
consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

7. Authority C has a newly elected governing body, unrelated to the governing bodies of Authority A and Authority B. Neither Authority A nor Authority B has power over the Authority C. Neither do they have exposure, or rights, to variable benefits from any involvement with Authority C.
8. Neither Authority A nor Authority B have gained control over Authority C as a result of the Business combination. Consequently, the combination is classified as an amalgamation.



Scenario 2: Reorganization of Local Government by Combining Authorities into a New Legal Entity

9. The following diagram illustrates the creation of a new authority by combining all of the operations of two existing authorities into a new legal entity.



10. In this scenario, a business combination occurs in which Authority C is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of Authority A and Authority B. Prior to the combination, Authority A and Authority B are not under common control. The combination is imposed by the federal government (a third party) through legislation. The government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.
11. The legislation that creates Authority C provides for the formation of a new governing body with no links to Authority A or Authority B. Authority A and Authority B have no role in determining the terms of the combination. After the combination, Authority A and Authority B cease to exist.
12. The creation of Authority C is a business combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

13. Authority C has a newly formed governing body, unrelated to the governing bodies of Authority A and Authority B. Neither Authority A nor Authority B has power over Authority C. Neither do they have exposure, or rights, to variable benefits from any involvement with Authority C.
14. Neither Authority A nor Authority B have gained control over Authority C as a result of the business combination. Consequently, the combination is classified as an amalgamation.



Scenario 2: Variation

15. The legislation that creates Authority C provides for the formation of a new governing body with no links to Authority A or Authority B. In this variation, the legislation that creates Authority C provides for the governing body of Authority A to become the governing body of Authority C.
16. This suggests that as part of the business combination that creates Authority C, Authority A is gaining control of the operations of Authority B. However, the assessment as to whether Authority A is gaining control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Authority C considers the guidance this Standard.
17. In this variation, it is assumed that the legislation that provides for the governing body of Authority A to become the governing body of Authority C results in Authority A gaining:
 - A. Power over the operations of Authority B;
 - B. Exposure, or rights, to variable benefits from its involvement with those operations; and
 - C. The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
18. Authority C concludes that, as a result of the previous factors, Authority A has gained control of Authority B.
19. In considering the economic substance of the business combination, Authority C notes that the combination does not result in a controlling entity/ controlled entity relationship between Authority A and Authority B. This is consistent with both an amalgamation and an acquisition. Authority C also notes that Authority A obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition but is not conclusive.
20. In considering the indicators relating to consideration, Authority C notes that the business combination does not include the payment of consideration because there is no party with an entitlement to the net assets of Authority B (i.e., there are no former owners of Authority B with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.
21. In considering the indicators relating to the decision-making process, Authority C notes that the business combination was imposed by the federal government (a third party) and that

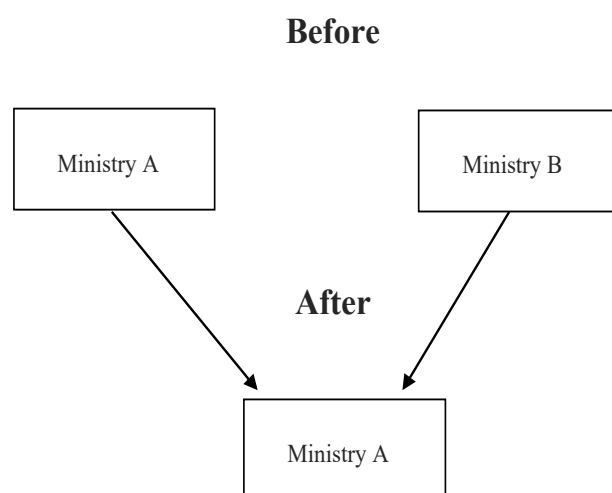
Authority A and Authority B had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

22. Taking these factors together, Authority C considers that the business combination should be classified as an amalgamation. In coming to this decision, Authority C considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.



Scenario 3: Reorganization of Local Government by Combining the Ministry into an Existing Legal Entity

23. The following diagram illustrates the combining of all of the operations of two existing departments into an existing legal entity.



24. In this scenario, a business combination occurs in which the operations of Ministry A and Ministry B are combined into the legal entity of Ministry A. Prior to the combination, Ministry A and Ministry B are not under common control. The combination is imposed by Central Government (a third party) through legislation. Central Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.
25. The legislation that effects the combination provides for the governing body of Ministry A to continue as the governing body of the combined entity.
26. Ministry A and Ministry B have no role in determining the terms of the combination. After the business combination, Ministry B ceases to exist.
27. These facts suggest that as part of the business combination, Ministry A is gaining control of the operations of Ministry B. However, the assessment as to whether Ministry A is gaining control is based on the substance of the combination, not its legal form. Ministry A considers the guidance in in this Standard when preparing its first financial statements.

28. In this scenario, it is assumed that the legislation that provides for the governing body of Ministry A to continue as the governing body of combined entity results in Ministry A gaining:
- A. Power over the operations of Ministry B;
 - B. Exposure, or rights, to variable benefits from its involvement with those operations; and
 - C. The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
29. Ministry A concludes that, as a result of the previous factors being met, it has gained control of Ministry B.
30. In considering the economic substance of the business combination, Ministry A notes that the combination does not result in a controlling entity/controlled entity relationship between Ministry A and Ministry B. This is consistent with both an amalgamation and an acquisition. Ministry A also notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.
31. In considering the indicators relating to consideration, Ministry A notes that the business combination does not include the payment of consideration because there is no party with an entitlement to the net assets of Ministry B (i.e., there are no former owners of Ministry B with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.
32. In considering the indicators relating to the decision-making process, Ministry A notes that the business combination was imposed by Central Government (a third party) and that Ministry A and Ministry B had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.
33. Taking these factors together, Ministry A considers that the business combination should be classified as an amalgamation. In coming to this decision, Ministry A considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.



Scenario 3: Variation

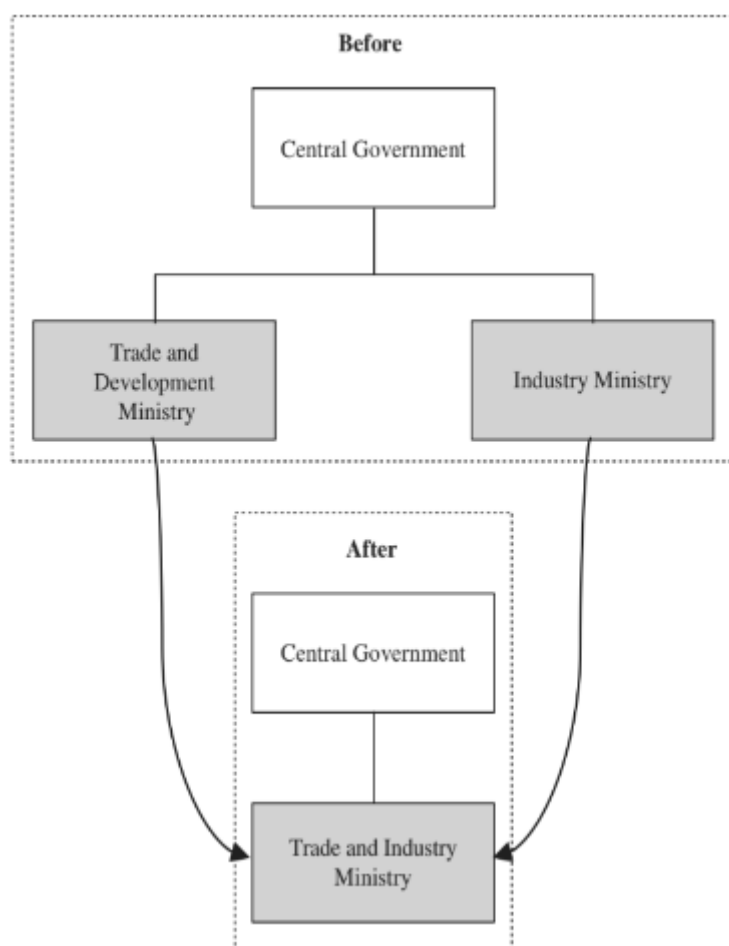
34. In Scenario 3, the legislation provides for the governing body of Ministry A to become the governing body of the combined entity. In this variation, the legislation provides for a new governing body to be formed that has no links to Ministry A or Ministry B.
35. In determining whether this business combination should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
36. Despite its legal form continuing, Ministry A has a newly formed governing body, unrelated to its previous governing body or that of Ministry B. Consequently, the previous Ministry A does not gain power over Ministry B. Neither does it have exposure, or rights, to variable benefits from any involvement with Ministry B.

37. Ministry A has not gained control over Ministry B as a result of the business combination. Consequently, the combination is classified as an amalgamation.



Scenario 4: Restructuring of Federal Government Ministries

38. The following diagram illustrates the reorganization of Federal Government Ministries by combining the Trade and Development Ministry and the Industry Ministry into the newly formed Trade and Industry Ministry.



39. In this scenario, a business combination occurs in which the Trade and Industry Ministry is formed to combine the operations of the Trade and Development Ministry and the Industry Ministry. All the Ministries, both prior to and after the combination, are controlled by the Federal Government.
40. The combination is imposed by the Federal Government using this control. The Trade and Development Ministry and the Industry Ministry have no role in determining the terms of the combination.
41. In effecting the combination, the Federal Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. After the combination, the Trade and Development Ministry and the Industry Ministry cease to exist.

42. As the Federal Government controls the same operations both before and after the business combination, the Federal Government does not report a combination in its consolidated financial statements. The combination is reported by the Trade and Industry Ministry.
43. The creation of the Trade and Industry Ministry is a business combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
44. The Federal Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. This suggests that as part of the business combination that creates the new Trade and Industry Ministry, the Industry Ministry is gaining control of the operations of the Trade and Development Ministry. However, the assessment as to whether the Industry Ministry is gaining control is based on the substance of the combination, not its form.
45. In this scenario, it is assumed that the decision of the Federal Government to give responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry results in the Industry Ministry gaining:
- A. Power over the operations of the Trade and Development Ministry;
 - B. Exposure, or rights, to variable benefits from its involvement with those operations; and
 - C. The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.
46. The Trade and Industry Ministry concludes that, as a result of the previous indicators being met, the Industry Ministry has gained control of the Trade and Development Ministry.
47. In considering the economic substance of the business combination, the Trade and Industry Ministry notes that the combination does not result in a controlling entity/ controlled entity relationship between the Trade and Development Ministry and the Industry Ministry. This is consistent with both an amalgamation and an acquisition. The Trade and Development Ministry also notes that the Industry Ministry obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition.
48. In considering the indicators relating to consideration, the Trade and Industry Ministry notes that the business combination does not include the payment of consideration because the combination took place under common control, and the Federal Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.
49. In considering the indicators relating to the decision-making process, the Trade and Industry Ministry notes that the business combination takes place under common control. The combination was directed by the Federal Government and the Trade and Development

Ministry and the Industry Ministry had no role in determining the terms of the combination. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Federal Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

50. Taking these factors together, the Trade and Industry Ministry considers that the business combination should be classified as an amalgamation. In coming to this decision, the fact that the business combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.



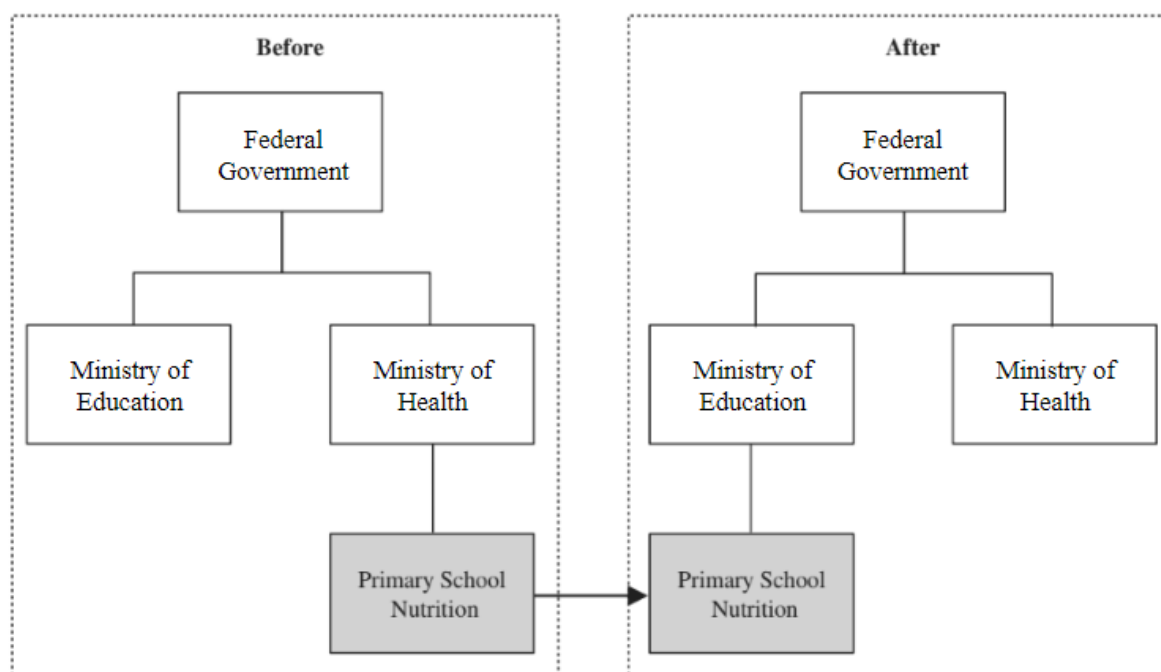
Scenario 4: Variation

51. In scenario 4, the Federal Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. In this variation, Federal Government appoints a new Minister and governing body.
52. The creation of the Trade and Industry Ministry is a business combination under common control. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.
53. The Trade and Industry Ministry has a new Minister and a newly formed governing body, unrelated to the governing bodies of the Trade and Development Ministry and the Industry Ministry. Neither the Trade and Development Ministry or the Industry Ministry has gained power over the operations of the other Ministry. Neither do they have exposure, or rights, to variable benefits from any involvement with the operations of the other Ministry.
54. Neither of the Trade and Development Ministry nor the Industry Ministry has gained control over the Trade and Industry Ministry as a result of the business combination. Consequently, the combination is classified as an amalgamation.



Scenario 5: Transfer of Operations Under Common Control

55. The following diagram illustrates the transfer of operations between two Federal Government entities that are under common control.



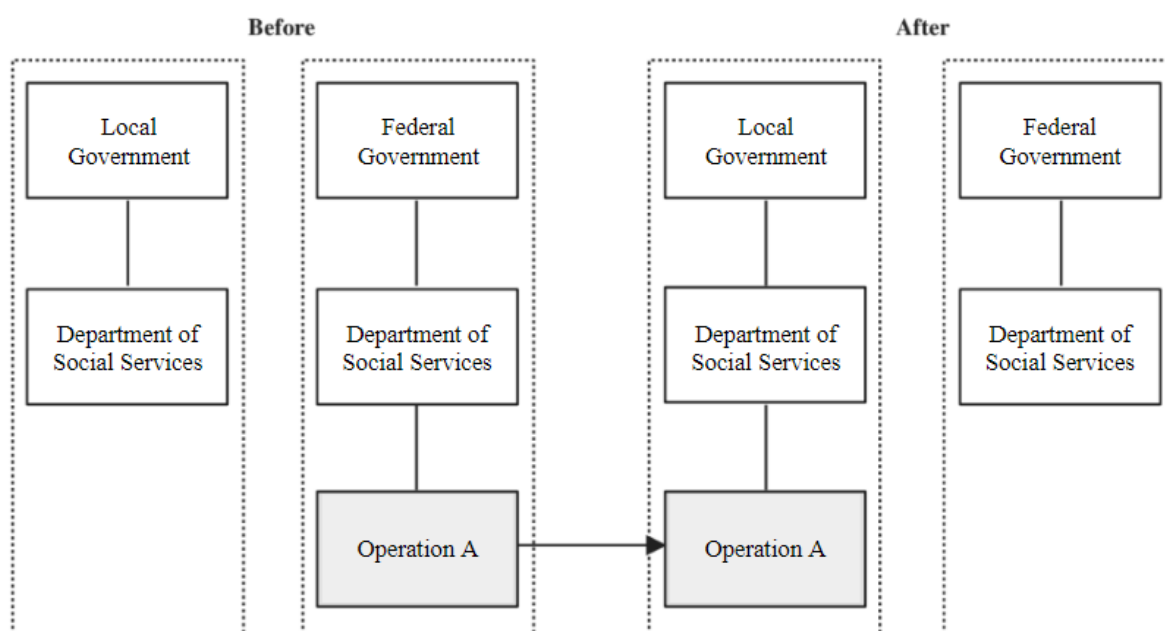
56. In this scenario, a business combination occurs in which the Primary School Nutrition operation is transferred from the Government's Ministry of Health to its Ministry of Education. Both Ministries are controlled by the Federal Government prior to and after the combination.
57. As the Federal Government controls the same operations both before and after the business combination, the Federal Government does not report a combination in its consolidated financial statements. The combination is reported by the Ministry of Education.
58. The transfer of the Primary School Nutrition operation is a business combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Ministry of Education considers is whether one of the parties to the combination has gained control of operations as a result of the combination.
59. In this scenario, the Ministry of Education gains:
 - A. Power over the Primary School Nutrition operation;
 - B. Exposure, or rights, to variable benefits from its involvement with that operation; and
 - C. The ability to use its power over that operation to affect the nature or amount of the benefits from its involvement with that operation.
60. The Ministry of Education concludes that, as a result of the indicators being met, it has gained control of the Primary School Nutrition operation.
61. In considering the economic substance of the business combination, the Ministry of Education notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction; this may suggest that the economic substance of the combination is that of an acquisition.

62. In considering the indicators relating to consideration, the Ministry of Education notes that the business combination does not include the payment of consideration because the combination took place under common control, and the Federal Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.
63. In considering the indicators relating to the decision-making process, the Ministry of Education notes that the business combination takes place under common control. The combination was directed by the Federal Government. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Federal Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.
64. Taking these factors together, the Ministry of Education considers that the business combination should be classified as an amalgamation. In coming to this decision, the fact that the business combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.



Scenario 6: Transfer of an Operation Between Levels of Government

65. The following diagram illustrates the transfer of an operation between levels of government.



66. In this scenario, the Federal Government adopts a policy of devolving responsibility for some social services to the Local Government. Consequently, it proposes transferring Operation A, which provides residential care services, from Federal Government's Department of Social Services to the Local Government's Department of Social Services. The Local Government supports the policy and agrees to accept Operation A. Operation A has net assets of AED 1,000. There is no transfer of consideration by the Local Government to the Federal Government. However, the transfer agreement imposes an obligation on the Local Government to continue to provide the residential care services for a minimum of 10 years. Operation A does not recover all its costs from charges; the Local Government therefore assumes the responsibility for providing resources to meet the shortfall. Following the transfer, the Local Government operates Operation A as a stand-alone entity (i.e., there is a controlling entity/ controlled entity relationship between the Local Government and Operation A), although it plans to integrate the operation with its other operations at a later date, which would remove the controlling entity/ controlled entity relationship.
67. The transfer of Operation A is a business combination that will need to be reported in both the Local Government's financial statements and those of the Federal Government's Department of Social Services. As the analysis required will be the same for both entities, this example uses the term Local Government to refer to both entities.
68. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Local Government considers is whether it has gained control of operations as a result of the combination.
69. In this scenario, the Local Government gains:

- A. Power over Operation A;

- B. Exposure, or rights, to variable benefits from its involvement with Operation A; and
 - C. The ability to use its power over Operation A to affect the nature or amount of the benefits from its involvement with the operation.
70. The Local Government concludes that, as a result of the business combination, it has gained control of Operation A.
71. In considering the economic substance of the business combination, the Local Government notes that the combination results in a controlling entity/ controlled entity relationship between the Local Government and Operation A. This is inconsistent with the economic substance of an amalgamation.
72. In considering the indicators relating to consideration, the Local Government notes that the business combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the transfer agreement requires the Local Government to continue to provide the services. As Operation A does not recover all its costs from charges, the Local Government will need to provide the necessary resources to cover the shortfall. The Local Government considers that the cost of providing services for the agreed 10 year period is likely to be approximately equal to the value of the net assets received. It therefore considers that a market participant would estimate the fair value of Operation A (with the obligation to provide services for 10 years) to be zero. Although no consideration is transferred, this reflects the fair value of the combination. The Local Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
73. In considering the indicators relating to the decision-making process, the Local Government notes that the business combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
74. Taking these factors together, the Local Government concludes that there is no evidence that economic substance of the combination is that of an amalgamation, and that the business combination should, therefore, be classified as an acquisition.



Scenario 7: Variation

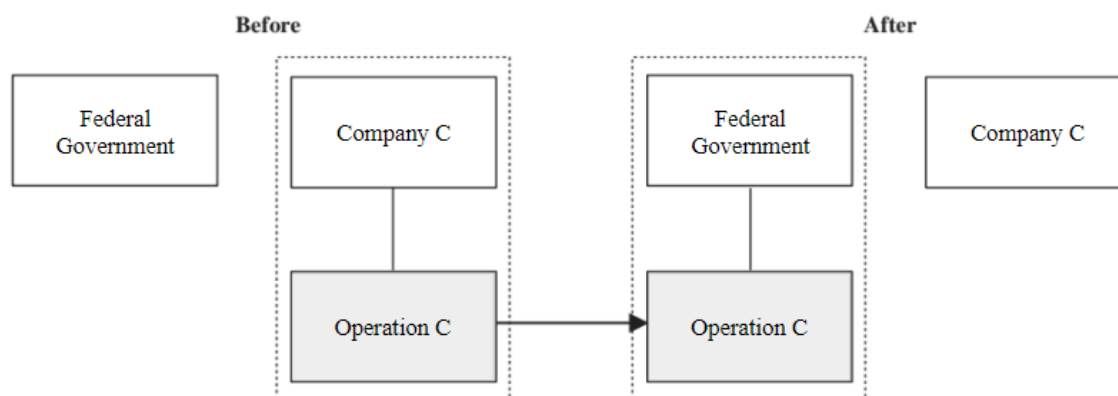
75. The Federal Government considers that a market participant would estimate the fair value of Operation A (with the obligation to provide services for 10 years) to be zero. This is the reason that no consideration is paid. In this variation, Operation A is assumed to cover its costs from charges. Consequently, a market participant would estimate the fair value of Operation A (with the obligation to provide services for 10 years) to be greater than zero.
76. In these circumstances, the fact that the combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation may provide evidence that the economic substance of the combination is that of an amalgamation.

77. In determining the classification of the business combination, the Local Government considers which factor or factors are the most significant. The Local Government considers the fact that it has gained control of Operation A and the fact that the combination does not involve the integration of its operations and those of Operation A to be the most significant factors in determining the economic substance of the combination. This suggests that the combination should be classified as an acquisition. The indicators relating to the decision-making process support this classification; only the indicators relating to consideration suggest that the economic substance of the combination may be an amalgamation. The Local Government therefore classifies the combination as an acquisition.

Scenario 8: Purchase of a Private Sector Operation



78. The following diagram illustrates the purchase of a private sector operation by a Federal Government entity.



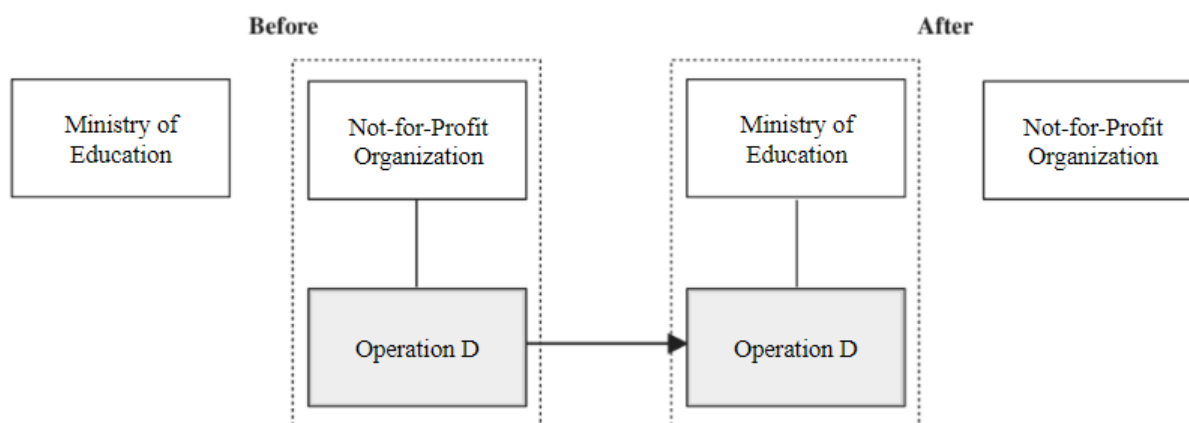
79. In this scenario, The Federal Government purchases Operation C from Company C. The Federal Government pays the market value of Operation C, and Company C acts voluntarily. Following the purchase, Operation C is managed as an arms-length, stand-alone entity.
80. The purchase of Operation C is a business combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Federal Government considers is whether it has gained control of operations as a result of the combination.
81. In this scenario, Federal Government gains:
- A. Power over Operation C;
 - B. Exposure, or rights, to variable benefits from its involvement with Operation C; and
 - C. The ability to use its power over Operation C to affect the nature or amount of the benefits from its involvement with that operation.
82. The Federal Government concludes that, as a result of the business combination, it has gained control of Operation C.

83. In considering the economic substance of the business combination, the Federal Government notes that the combination results in a controlling entity/ controlled entity relationship between the Federal Government and Operation C. This is inconsistent with the economic substance of an amalgamation.
84. In considering the indicators relating to consideration, the Federal Government notes that the business combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. The Federal Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
85. In considering the indicators relating to the decision-making process, the Federal Government notes that the business combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
86. Taking these factors together, the Federal Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the business combination should, therefore, be classified as an acquisition.



Scenario 9: Donated Operations

87. The following diagram illustrates the receipt of a donated operation by a federal entity.



88. In this scenario, Not-for-Profit Organization, a charity providing education services, voluntarily transfers Operation D, a school, to the Ministry of Education at no cost. Not-for-Profit Organization does this because it considers that this will result in improved services to the public and enable it to meet its objectives.

89. In this scenario, the Ministry of Education gains:

- A. Power over Operation D;
- B. Exposure, or rights, to variable benefits from its involvement with Operation D; and
- C. The ability to use its power over Operation D to affect the nature or amount of the benefits from its involvement with that operation.

90. The Ministry of Education concludes that, as a result of the business combination, it has gained control of Operation D.

91. In considering the economic substance of the business combination, the Ministry of Education notes that the combination has commercial substance (even though no price was paid for Operation D), which is suggestive of an acquisition.

92. In considering the indicators relating to consideration, the Ministry of Education notes that the business combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organization voluntarily surrendered those rights. The situation is similar to that of a bargain purchase. In a bargain purchase, a seller may be willing to accept a price below market value where this meets their needs, for example in enabling a quick sale. With a donated operation, the former owner is willing to transfer the operation for no consideration to their preferred counterparty. In this scenario, Not-for-Profit Organization is willing to transfer Operation D to the Ministry of Education because this will provide improved services to the public. Consequently, the Ministry of Education concludes that the indicators of consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

93. In considering the indicators relating to the decision-making process, the Ministry of Education notes that the business combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.
94. Taking these factors together, the Ministry of Education concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the business combination should, therefore, be classified as an acquisition.

Transitional Provisions

Referring to the requirements of the FGAAS 33 “First-Time Adoption of the Accrual Basis”, the federal entity that adopts the accrual accounting standards of the federal government for the first time can change its accounting policy before the end of the grace period that lasts three years from the date of adopting the accrual accounting standards of the federal government to prepare the financial statements.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

Technical References

IPSAS 40 - Public Sector Combinations



Section- Social Benefits

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to social benefits of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version	September 2022		

Approved by: _____
Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to social benefits in addition to detailing the Basis in which all such social benefits are to be recognised, measured, presented and disclosed in financial statements. This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

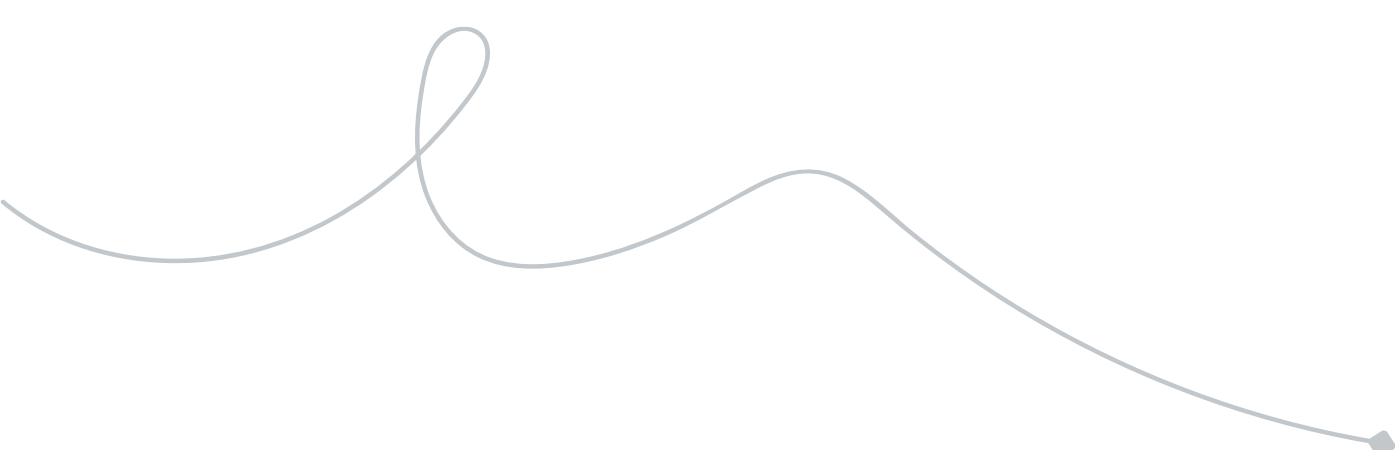
Definitions



The following terms are used in this Standard with the meanings specified:

Term	Definition
Collective Services	Collective services are services provided by a federal entity simultaneously to all members of the community that are intended to address the needs of society as a whole.
Individual Services	Individual services are goods and services provided to individuals and/or households by a federal entity that are intended to address the needs of society as a whole.
Social Benefits	Social benefits represent cash transfers provided by a federal entity to specific individuals and/or households who meet eligibility conditions and criteria.
Social Risks	are events or circumstances that: A. Relate to the characteristics of individuals and/or households - for example, age, health, poverty, and employment status; and B. May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.
Interest Cost	The increase during a period in the present value of a defined benefit obligation which, accounting-wise, arises as a result of passage of time and settlement time has become closer.
The Present Value of the Social Benefit Obligation	The present value of the expected future payments necessary to settle an obligation arising from the fulfillment by the individuals and/or the concerned households of the eligibility criteria and conditions in the current and prior periods.
Deficit or Surplus	Deficit or Surplus is: A. The actual cost of making social benefit payments, less B. The liability balance initially determined for social benefit plans.
Eligibility Criteria	Eligibility Criteria represent the requirements that individuals and/or households must meet to be able to receive social benefits. Examples include: A. Reaching retirement age (in the case of a retirement pension); B. The death of a partner (in the case of a survivor benefit);

Term	Definition
	C. Becoming unemployed (in the case of an unemployment benefit).
Social Contributions	Social contributions that a federal entity deducts (regarding social benefit plans) represent revenues from non-exchange transactions and are accounted for in accordance with Standard 23 - Revenues from non-exchange transactions.



Standard 42 - Social Benefits

Standard 42 - Social Benefits

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 42 (IPSAS 42). It is worth mentioning that certain text of standard 42 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to improve the relevance, faithful representativeness, and comparability of the information that a federal entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and decision makers, and general-purpose financial reports, evaluate the following:
 - A. The nature of such social benefits provided by a federal entity;
 - B. The key features of the operation of those social benefit schemes; and
 - C. The impact of such social benefits provided on the entity's financial performance, financial position and cash flows..

This standard aims to understand and explain the accounting treatment of social benefits by defining the following principles and requirements:

- A. Recognizing expenses and liabilities for social benefits;
- B. Measuring expenses and liabilities for social benefits;
- C. Presenting expenses and liabilities related to social benefits in the financial statements; and
- D. Determining what information to disclose to enable users of the financial statements, and decision-makers to evaluate the nature and financial effects of the social benefits provided by a federal entity.

Scope



2. This Standard shall apply to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in its introduction. This standard must be applied by a federal entity to account for all social benefits provided to its employees.
3. This Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 6 of this Standard. This Standard does not address transactions that are addressed in other FGAAS, such as employee pensions (which are accounted for in accordance with FGAAS 39 - Employee Benefits) and concessionary loans such as student loans (which are accounted for in accordance with FGAAS 41 - Financial Instruments).



4. This Standard does not apply to cash transfers that are accounted for in accordance with other Standards:
 - A. Financial instruments that are within the scope of FGAAS 41 - Financial Instruments;
 - B. Employee benefits that are within the scope of FGAAS 39 - Employee Benefits.

This Standard does not apply to collective and individual services. The definition of social benefits only includes cash transfers, not the provision of services. This Standard does not apply to cash transfers to individuals and households that do not address social risks, for example emergency relief.

5. Collective services and individual services (as defined in FGAAS 19 - Provisions, Contingent Liabilities and Contingent Assets) are not social benefits. Refer to Standard 19 to determine whether a provision arises for these transactions.

Definition of Social Benefits



6. Social benefits to which this standard applies include cash transfers provided to:
 - A. Specific individuals and/or households who meet eligibility criteria;
 - B. Mitigate the effect of social risks; and
 - C. Address the needs of society as a whole.

The following is an explanation of the above conditions:

Cash Transfers



7. Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/or households. Services provided by a Governmental entity are not social benefits. A federal entity may provide vouchers that allow individuals and/or households to access services, or may reimburse individuals and/or households for costs incurred in accessing services. The economic substance of these transactions is that the federal entity is paying for the provision of the services; such transactions do not, therefore, meet the definition of a social benefit. Where a federal entity provides vouchers or reimbursements, the individual and/or household has no discretion over the use of the benefit. By contrast, social benefits provide cash transfers that may be used indistinguishably from income coming from other sources.

Example 42.1 - Cash Transfers



Some federal entities may provide cash transfers in the form of cash equivalents that have limited restrictions on the use of the cash transfer.

For example, a federal entity may provide a pre-paid debit card that can be used to purchase any item except alcohol and tobacco products. Such limited restrictions do not contravene the principle that social benefits provide cash transfers that may be used indistinguishably from income coming from other sources. Pre-paid debit cards with limited restrictions are cash transfers, not the provision of services.

Fulfillment of Eligibility Criteria and Conditions



8. Social benefits are only provided when eligibility criteria to receive a social benefit payment when it is next paid are met. For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where a government pays a universal basic income to all adult residents.

Mitigating the Impact of Social Risks



9. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.

Meeting the Needs of Society as a Whole



10. Social benefits are organized to ensure that the needs of society as a whole are addressed. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; social benefits could be provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.



Example 42.2 - Social Benefits - Provision of State Retirement Pension

A federal entity pays a minimum state retirement pension to all citizens who have reached the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the state retirement pension pays the same amount to each retiree regardless of the contributions made.

- ✓ The retirement benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.
- ✓ The retirement benefits address the needs of society as a whole. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.

Consequently, the state retirement pension is within the scope of this Standard.



Example 42.3 - Social Benefits - Provision of Universal Healthcare Services

A federal entity provides basic healthcare services to all its citizens, and to other individuals who fulfill eligibility criteria and conditions.

- ✓ The healthcare services are provided to specific individuals who meet eligibility criteria.
- ✓ The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.

Example 42.3 - Social Benefits - Provision of Universal Healthcare Services

✓ However, a federal entity provides services rather than cash transfers. Consequently, the healthcare services are outside the scope of this Standard.

**Example 42.4 - Social Benefits - Provision of Disability Pensions**

A federal entity pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.

- ✓ The disability pensions are provided as cash transfers.
- ✓ The disability pensions are provided to specific individuals who meet eligibility criteria.
- ✓ The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.

Consequently, the disability pensions are within the scope of this Standard.

**Example 42.5 - Social Benefits - Provision of Unemployment Benefits**

A federal entity pays unemployment benefits to certain individuals who become unemployed. The unemployment benefits are payable for a maximum of one year, and there is a two week 'waiting period' before the unemployment benefits are payable.

- ✓ The unemployment benefits are provided as cash transfers.
- ✓ The unemployment benefits are provided to specific individuals who meet eligibility criteria.
- ✓ The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.

Consequently, the unemployment benefits are within the scope of this Standard.

Social Risks

11. Social risks to which this standard applies include events or circumstances that:

- A. Relate to the characteristics of individuals and/or households - for example, age, health, poverty and employment status; and
- B. May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

12. What distinguishes the nature of social risks from other risks, is that social risks relate directly to the characteristics of an individual and/or household. The condition, event, or



circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

Example 42.6 - Social Risks

Unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households - in this case a change in an individual's employment status.

By contrast, aid provided immediately following a natural disaster (i.e. a fire) is not a social benefit, because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

General Approach

Recognition of a Liability for a Social Benefit Scheme



13. A federal entity shall recognize a liability for a social benefit scheme when:

- A. The federal entity has a present obligation that results from a past event;
- B. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- C. The present obligation can be measured reliably.
- D. When those conditions are not met, a federal entity shall not recognise a liability. The following is an explanation of the recognition requirements mentioned above.

Past Event



14. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. The satisfaction of eligibility criteria for each social benefit payment is a separate past event.



15. For example, being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion. For a liability to be recognized, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.
16. Where a beneficiary has not previously satisfied the eligibility criteria for the next payment, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria for the next payment are first satisfied or when all the eligibility criteria are satisfied again. Examples may include:
- A. Reaching retirement age (in the case of a retirement pension);
 - B. The death of a partner (in the case of a survivor benefit);
 - C. Becoming unemployed (in the case of an unemployment benefit).

17. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for social benefits is recognized each time the criteria are satisfied.



18. Whether being alive is a separate eligibility criterion will depend on the characteristics of each individual social benefit scheme. For some schemes, separate consideration of being alive is not required as it is indirectly addressed by another eligibility criterion. For example:
- A. An unemployment benefit may only be payable to those who have become unemployed and are available for work (which implicitly includes being alive).
 - B. Being alive may not be an eligibility criterion for the recipient of the social benefit. A child benefit may be paid to the parents or guardian of the child; the payment of the benefit may be dependent on the child being alive, and not on the status of the parent or guardian.
 - C. Benefits may be transferred to a survivor following the death of the beneficiary (In the event of the entitlement of the survivor).

An entity needs to consider how being alive affects the recognition of each particular social benefit scheme.

Outflow of Resources



19. A liability must involve an outflow of resources from the federal entity for it to be settled. An obligation that can be settled without an outflow of resources from the federal entity is not a liability.
20. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of preparing financial statements using the accrual basis of accounting, and it does not affect its reliability.
21. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Recognition of an Expense for a Social Benefit Scheme



22. A federal entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability.
23. A federal entity shall not recognize an expense for a social benefit scheme where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied. Rather, a federal entity shall recognize a payment in advance as an asset in the statement of financial position, unless the amount becomes irrecoverable, in which case it shall recognize an expense.

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability



24. A federal entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the federal entity will incur in fulfilling the present obligations represented by the liability.



25. A federal entity's best estimate of the costs (i.e., the social benefit payments) that the federal entity will make considers the possible effect of subsequent events on those social benefit payments.

26. When the liability in respect of a social benefit scheme is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognized, the liability shall be discounted using the discount rate specified in paragraph 30.

Subsequent Measurement



27. The liability for a social benefit scheme shall be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit in the period in which the liability is settled.

28. Where a liability is discounted in accordance with paragraph 26, the liability is increased, and interest expense recognized in each reporting period until the liability is fully settled.

29. The liability shall be reviewed at each reporting date and adjusted to reflect the current best estimate of the costs (i.e., the social benefit payments) that the federal entity will incur in fulfilling the present obligations represented by the liability.

Discount Rate



30. The rate used to discount a liability in respect of a social benefit scheme shall reflect the time value of money.

31. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the social benefit liability.

Example 42.7 - Subsequent Measurement of the Liability for a Social Benefit Scheme



A federal entity pays a state retirement pension to citizens who have reached the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life of 5%, based on their monthly salary.

Benefits equal to the present value, on the expected date of retirement, shall be attributed to the monthly pension at the rate of 5% of the salary from the expected date of retirement until the date of death. The present value of the social benefits obligation is the present value of the monthly pension payments at 5% of the final salary, multiplied by the number of years of service up to the reporting date. The obligation is deducted because monthly pension payments begin at age 65.



Example 42.7 - Subsequent Measurement of the Liability for a Social Benefit Scheme

On March 31, the federal entity was informed of the death of a number of retired beneficiaries. The current value of the obligation recognized in the statement of financial position for these individuals amounted to AED 1,500,000. The value of the actual benefits payments until the date of death amounted to AED 900,000.

On March 31, the federal entity settles the obligation, and recognizes the differences between the actual payments of benefits and the current value of the obligation within the surplus or deficit for the period.

The federal entity records the following entries when making payments:

Description	Debit	Credit
Liability for the Social Benefit Scheme	900,000	
Cash and cash equivalent		900,000

The federal entity also records the following transactions to reverse the remaining obligation because of the death of the concerned retirees:

Description	Debit	Credit
Liability for the Social Benefit Scheme	600,000	
Other Income - Reconciliation of Social Benefit Plans Liability		600,000

Measurement of an Expense for a Social Benefit Scheme



32. An entity shall initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 24.
33. When the federal entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it shall measure the payment in advance or expense recognized in accordance with paragraph 23 at the amount of the cash transferred.



Example 42.8 - Recognition and Measurement of Liability and Expense for a Retirement Pension

A federal entity provides a retirement pension to its citizens. The pension scheme pays a fixed amount of AED 10,000 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month. Retirement pensions are paid at the end of each month.

1. As of December 31, 2022, the federal entity recognized a liability for retirement pensions of AED 1,950,500.

During 2022, the federal entity paid retirement pensions as follows:

The federal entity recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria and reached the retirement age, the federal entity is committed to paying their pensions monthly. Therefore, the federal entity recognizes a monthly liability for the pension that will be paid in the next month.

Accordingly, the federal entity shall, on December 31, 2022, record the following entries:

Description	Debit	Credit
Expense for the Social Benefit Scheme	1,950,500	
Liability for the Social Benefit Scheme		1,950,00

2. Pensions paid during 2023:

Month	Pension paid
January 2023	1,950,500
February - December 2023	22,258,000
Total	24,208,500

Moreover, during January 2024, the federal entity paid pensions amounted to AED 2,095,750.

Amount recognized as an expense by the federal entity during 2023:

As of December 31, 2023, the federal entity recognizes a liability and expense for retirement pensions payable to those who satisfied the eligibility criteria at that date. The amount to be paid next month (January 2024).

Accordingly, the total amount recognized as an expense during 2023 amounted to AED 2,435,750. Below are the details of this amount:

✓ Pensions paid in February 2023 to December 2023 (related to expense recognized in January to November 2023)	22,258,000

Example 42.8 - Recognition and Measurement of Liability and Expense for a Retirement Pension

✓ Pensions paid in 2024 (liability and expense recognized in December 2023)	2,095,750
Total	24,353,750



Example 42.9 - Recognition and Measurement of Liability and Expense for a Retirement Pension

A federal entity provides a retirement pension to its citizens. The pension scheme pays a fixed amount of AED 10,000 per month to each individual who has reached the retirement age of 70. The amounts are estimated and distributed proportionately in the months in which the individual reaches retirement age, and in the months in which the individual dies. Retirement pensions are paid at the end of each month.

In this example, it is assumed that the federal entity has complete information at the date it pays retirement pensions. Consequently, the difference between the amount of liability recognized in a month and the paid amount in a subsequent month represents the pro-rated retirement pensions paid to those who reached retirement age during that month.

- As of December 31, 2022, the federal entity recognized retirement pension amount to be paid to those individuals who satisfied the eligibility criteria in that date, the amount is AED 2,990,656.

The federal entity shall, on December 31, 2022, record the following entries:

Description	Debit	Credit
Expense for the Social Benefit Scheme	2,990,656	
Liability for the Social Benefit Scheme		2,990,656

- On January 31, 2024, the federal entity pays retirement pensions totaling AED 3,053,576. There are three elements to this payment:

✓ Full pensions paid to those pensioners eligible at December 31, 2023 and remaining eligible at January 31, 2024	2,979,600
✓ Pro-rated pensions paid to those pensioners eligible at December 31, 2023 who died during January 2024	36,420
✓ Pro-rated pensions paid to those who reached retirement age during January 2024	37,556
Total	3,053,576

Considering that the federal entity issued its financial statements for the year 2023 after paying the retirement pensions for the month of January 2024.

The federal entity recognized the liability listed in the financial statements as of December 31, 2023, as follows:

Example 42.9 - Recognition and Measurement of Liability and Expense for a Retirement Pension

As of December 31, 2023, the federal entity recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 2023 financial statements are issued after the January 2024 retirement pensions have been paid, the federal entity uses the information available at that time to prepare its financial statements.

Accordingly, the federal entity recognizes a liability amounted to AED 3,016,020, as follows:

✓ Full pensions paid to those pensioners eligible on December 31, 2023 and remaining eligible at January 31, 2024	2,979,600
✓ Pro-rated pensions paid to those pensioners eligible on December 31, 2023 who died during January 2024	36,420
Total	3,016,020

The liability does not include the pro-rated pensions paid to those who reached retirement age during January 2024 because they had not satisfied the eligibility criteria as of December 31, 2023.

Presentation and Disclosure



34. The objective of the disclosures under the general approach, together with the information provided in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and statement of cash flows, is to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the federal entity. Paragraphs 35-37 specify requirements on how to meet this objective.



35. A federal entity shall disclose information that:

- A. Explains the characteristics of its social benefit schemes; and
- B. Explains the demographic, economic and other external factors that may affect its social benefit schemes.



36. To meet the requirements of paragraph 25, a federal entity shall disclose:

- A. Information about the characteristics of its social benefit schemes, including:
 - ✓ The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).
 - ✓ Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and a statement about how additional information about the scheme can be obtained.
 - ✓ A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer

from another federal entities, or by other means. If a scheme is funded (whether in full or in part) by social contributions, the federal entity shall provide:

- A cross reference to the location of information about those social contributions and any dedicated assets (where this information is included in the federal entity's financial statements); or
 - A statement regarding the availability of information on those social contributions and any dedicated assets in another federal entity's financial statements and how that information can be obtained.
- ✓ A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate where the same demographic, economic and other external factors impact a number of social benefit schemes in a similar manner.
- B. The total expenditure on social benefits recognized in the statement of financial performance, analyzed by social benefit scheme.
- C. A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:
- ✓ Changes to the level of social benefits provided; and
 - ✓ Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.
37. In making the disclosures required by this paragraph, a federal entity shall have regard to the requirements of FGAAS 1- Presentation of Financial Statements, which provide guidance on materiality and aggregation

Transitional Provisions

A federal entity shall apply this Standard retroactively, in accounting for a social benefit scheme that is recognized and measured, and about which disclosures are made, in accordance with the general approach (see paragraphs 13-37), in accordance with FGAAS 3 -Accounting Policies, Changes in Accounting Estimates and Errors.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2023.

Technical References

IPSAS 42 - Social Benefit.



Appendix 1 - Newly Issued Standards

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to property, plant, and equipment of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version			

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to property, plant, and equipment in addition to detailing the manner in which all such property, plant, and equipment are to be recognised, measured, presented and disclosed in financial statements.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.



Definitions

The following terms are used in this Standard with the meanings specified:

Term	Definition
Carrying amount	The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses
Class of property, plant, and equipment	Means a grouping of assets of a similar nature or function in a federal entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.
Depreciable amount	Is the cost of an asset, or other amount substituted for cost, less its residual value
Depreciation	Is the systematic allocation of the depreciable amount of an asset over its useful life
Property, plant, and equipment	Are tangible assets that: A. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and B. Are expected to be used during more than one reporting period.
The residual value	The estimated amount that a federal entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Useful life	The period over which an asset is expected to be available for use by a federal entity.



Standard 45 - Property, Plant, and Equipment

Standard 45 - Property, Plant, and Equipment

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 45 (FGAAS 45). It is worth mentioning that certain text of standard 45 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about a federal entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are the recognition of the assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

Scope



2. This Standard shall apply to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in its introduction. A federal entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except when another Standard requires or permits a different accounting treatment.
3. This Standard does not apply to:
 - A. Biological assets related to agricultural activity other than bearer plants within the scope of FGAAS 27 "Agriculture". This Standard applies to bearer plants but does not apply to the produce on bearer plants; and
 - B. Property, plant, and equipment classified as held for sale within the scope of FGAAS 44, "Non- current Assets Held for Sale and Discontinued Operations".

However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(A).

4. This Standard applies to all property, plant, and equipment including:
 - A. Heritage.
 - B. Infrastructure.
 - C. Service concession arrangement assets after initial recognition and measurement in accordance with FGAAS 32, Service Concession Arrangements: Grantor, and
 - D. Weapons systems.

Heritage Assets

5. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.
6. Heritage assets typically have the following distinguishing characteristics:
 - A. They have restrictions on their use and/or disposal.

- B. They are irreplaceable; and
- C. They have long and sometimes indefinite useful lives.

Infrastructure Assets

- 7. Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these assets were removed, the network or system may not achieve its service potential objective.
- 8. Infrastructure assets typically have the following distinguishing characteristics:
 - A. They are networks or systems; and
 - B. They have long useful lives.
- 9. Examples of Infrastructure assets include:
 - A. Electricity transmission networks, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities.
 - B. Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and
 - C. Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps, and treatment plants.

Weapons Systems

- 10. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence and, therefore, can be classified as weapons systems.

Assessment of Control

- 11. There may be uncertainty whether certain items of property, plant, and equipment are an asset as defined in FGAAS 1, Presentation of Financial Statements. This is because to be recognized as an asset, an item of property, plant, and equipment must meet all three criteria of an asset:
 - A. A resource.
 - B. Presently controlled by the federal entity and.
 - C. Arose from a past transaction or other past event.

12. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective when those services contribute to achieving the federal entity's service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where a federal entity's objectives are to provide heritage-related services such as the appreciation and study of heritage, the federal entity holds heritage items to achieve those objectives, and the heritage items have service potential and are resources from the federal entity's perspective. Similarly, infrastructure assets that are used to deliver public services (e.g., road networks or water systems) will be resources to a federal entity that holds them if those services contribute to achieving the federal entity's service delivery and other objectives.
13. In assessing whether it presently controls a resource, a federal entity assesses whether one or more of the following indicators of control exists:
 - A. Legal ownership.
 - B. Access to the resource, or the ability to deny or restrict others to access the resource.
 - C. The means to ensure that the resource is used to achieve its objectives; or
 - D. The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

A federal entity is more likely to demonstrate control if it satisfies most of these indicators. However, assessments of control involve judgment, and control may exist when only some of these indicators are satisfied. Conversely, control may not exist even when most of these indicators are met.

14. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. A federal entity may demonstrate that it controls the resource even when there is no legal ownership because it can direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, a federal entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances, a federal entity considers substance over form in determining whether it controls an asset.



Example 45.1 - Assessment of Control - Control of Land under or over Property, Plant, and Equipment

A governmental entity enters into a long-term binding arrangement with the federal government to construct a road that passes through a federal park. The land is legally owned by the federal government, and it has the title deeds of the land. The governmental entity constructs a 200-mile road which connects two of its largest cities. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities. The Federal government controls the land because the Federal government:

- A. Legally owns the land.

- B. Retains all the rights to the land, as it can cancel the binding arrangement at any point in time; and
- C. Retains the ability to generate economic benefits arising from selling the land. The Federal government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.

While the Governmental entity has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the federal government is not receiving any service potential or economic benefit from the land while the road is in use, this is insufficient to support the control of the land by the Governmental entity. Other indicators support control being retained by the federal government.

In case the facts and circumstances remain the same except the land is transferred to the governmental entity and the latter has unlimited and unrestricted use of the land and does not legally own the land. Even though the governmental entity does not legally own the land, the governmental entity controls the land because it:

- A.



Recognition

15. An item of property, plant, and equipment shall be recognized if, and only if:
 - A. It is probable that future economic benefits or service potential associated with the item will flow to the federal entity.
 - B. The item can be measured reliably; and
 - C. If the federal entity can demonstrate its control of the asset.
16. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Standard when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory (see FGAAS 12, "Inventories").
17. If a federal entity holds heritage property, plant, and equipment that meets the definition of an asset, but which does not meet the recognition criteria because they cannot be measured reliably, information as required by paragraph 82 shall be disclosed in the notes to the financial statements. When information about the cost or current value of the heritage property, plant, and equipment becomes available, the federal entity shall, from that date, recognize the heritage property, plant, and equipment and apply the measurement principles in this Standard.

**Example 45.2 - Recognition of Property, Plant and Equipment Acquired through Exchange Transactions**

At the beginning of the current year, the Ministry of Health purchased three buses from a third party for the value of AED 600,000.

Accordingly, the Ministry of Health shall recognize the buses as part of property, plant and equipment, since all conditions are met:

- ✓ The flow of economic benefits and service potential.
- ✓ Cost can be reliably measured.
- ✓ The Ministry of Health gained control of the buses by acquiring them.

Therefore, the Ministry of Health shall make the following entries:

Description	Debit	Credit
Fixed Asset - Buses	600,000	
Cash - Bank Account		600,000

Example 45.3 - Recognition of Property, Plant and Equipment Acquired through Non-exchange Transactions

The Ministry of Health transferred a bus to the Ministry of infrastructure under an agreement that provides for transferring the ownership of said bus to the Ministry of infrastructure to use the same for the remainder of its useful life. The deemed cost of the transferred bus is AED 250,000. Accordingly, the received asset will be recognised at deemed cost, together with the corresponding liability (deferred revenue) arising from the above-mentioned agreement.

Therefore, the Ministry of infrastructure shall record said transaction as follows:

Description	Debit	Credit
Fixed Asset - Buses	250,000	
Liability - Deferred Revenue		250,000

While the asset is in use, upon satisfying implicit conditions (using the asset during the remaining period which is expected to be 5 years), a depreciation for the period was recognised for the amount of AED 50,000. Accordingly, depreciation shall be recognised together with revenue from a non-exchange transaction to reduce the previously recognised liability (deferred revenue).

Therefore, the Ministry of infrastructure shall record said transaction as follows:

Description	Debit	Credit
Depreciation Expense - Bus	50,000	
Accumulated Depreciation - Bus		50,000
Description	Debit	Credit
Liability - Deferred Revenue	50,000	



Revenue from a Non-exchange Transaction		50,000

18. This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, it may be appropriate to:
- A. Disaggregate individually significant items, such as floors of a building, into separate units of account when the objective for which the federal entity holds the building is both for operational and financial capacity; or
 - B. Aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value.
19. A federal entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire, construct or develop an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant, and equipment, such as depreciation of right-of-use assets.

Initial Costs

20. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition, construction, or development of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for a federal entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable a federal entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired, constructed, or developed. For example, fire safety regulations may require a hospital to retrofit new sprinkler systems. These enhancements are recognized because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with FGAAS 21 "Impairment of Non-cash Generating Assets" and FGAAS 26 "Impairment of cash Generating Assets".

Subsequent Costs

21. Under the recognition principle in paragraph 15, a federal entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables and may include the cost of small parts.



Example 45.4 - Recognition of an Asset Including Associated Costs

At the beginning of the current year, the Ministry of Education purchased several computers from a third party for the value of AED 100,000: including an unrecoverable custom duty of AED 20,000. In addition, the Ministry incurred AED 6,000 as the cost of moving the devices to the Ministry and AED 4,000 to install them.

Therefore, the Ministry of Education shall make the following entries:

Description	Debit	Credit
Fixed Asset - Computers *	110,000	
Cash - Bank Account		110,000

*Calculated as follows: 100,000 + 6,000 + 4,000

22. Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building. Under the recognition principle in paragraph 15, a federal entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 68-74).

Example 45.5 - Recognition of Item Replacement Costs as an Asset



A federal entity purchased a bus for AED 250,000 with an estimated useful life of 5 years. At the end of the third year, the federal entity replaced the engine of the bus for the value of AED 60,000. However, upon initial recognition of the bus, the federal entity could not measure and disaggregate the "engine" component. On the date when the engine was replaced, the federal entity's financial statements showed the following:

- ✓ Cost of the bus: AED 250,000.
- ✓ Accumulated depreciation: AED 150,000.
- ✓ Carrying amount: AED 100,000.

Accordingly, the new engine will be capitalized at cost, but the federal entity needs to eliminate the value of the replaced part. Since the federal entity was unable to disaggregate the bus upon initial recognition, it will adopt the cost of the new engine as an indicative amount to eliminate the value of the old engine. As for accumulated depreciation, it will be calculated based on the proportion between the cost of the bus and the value of the new engine.

Accordingly, the amount of eliminated accumulated depreciation will be: $150,000 \times (60,000 / 250,000) = \text{AED } 36,000$.

Therefore, the federal entity shall make the following entries:

Recording the capitalization of the new engine

Description	Debit	Credit
Fixed Asset - Bus (<i>New Engine</i>)	60,000	
Cash - Bank Account		60,000

Recording the elimination of the old engine

Description	Debit	Credit
Accumulated Depreciation - Bus	36,000	
Damage Loss	24,000	
Fixed Asset - Bus (<i>Old Engine</i>)		60,000

Upon recording said transactions, the asset register will show the following:

- ✓ Cost of the bus: AED 250,000.

Example 45.5 - Recognition of Item Replacement Costs as an Asset

- ✓ Accumulated depreciation: AED 114,000.
- ✓ Carrying amount: AED 136,000.

23. A condition of continuing to operate an item of property, plant, and equipment may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied.



Example 45.6- Recognition of Subsequent Cost

In March 2025, a federal entity purchased a machine that requires inspection every 3 years. The cost of said machine was AED 500,000 and its useful life was estimated to be 9 years.

In March 2028, the entity performed the first inspection 3 years after the date on which the machine was purchased, and the cost of said inspection was AED 60,000.

Accordingly, when preparing the final accounts on December 31, 2028, the carrying amount of the machine is tracked as follows:

Description	Machine Costs	Inspection Costs	Total
Cost	500,000	60,000	560,000
Accumulated Depreciation	(166,667) *	0	(166,667)
Depreciation for the Period	(41,667) **	(15,000) ***	(56,667)
Carrying Amount	291,666	45,000	336,666

Note: The inspection amount (carrying amount) is presented in the value of the related asset. However, depreciation is tracked separately in the fixed assets register because in section has a different useful life.

Upon recording said transactions, the asset register will show the following:

$$\left(\frac{500,000}{9}\right) \times 3 = 166,667^*$$

$$\left(\frac{500,000}{9}\right) \times \left(\frac{9}{12}\right) = 41,667^{**}$$

$$\left(\frac{60,000}{3}\right) \times \left(\frac{9}{12}\right) = 15,000^{***}$$

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

24. A federal entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of the recognition criteria to determine whether or not it meets the recognition principle and should be recognized as an asset.

Initial Measurement



25. An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, unless it is acquired through a non-exchange transaction.

26. Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost. A federal entity shall apply FGAAS 46 "Measurement" when measuring deemed cost of an item of property, plant, and equipment.

Elements of Cost



27. The cost of an item of property, plant, and equipment comprises:
- A. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - B. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
 - C. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
28. Examples of directly attributable costs are:
- A. Costs of employee benefits (as defined in the FGAAS39, "Employee Benefits") arising directly from the acquisition, construction, or development of the item of property, plant, and equipment.
 - B. Costs of site preparation.
 - C. Initial delivery and handling costs.
 - D. Installation and assembly costs.
 - E. Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and
 - F. Professional fees.
29. Examples of costs that are not costs of an item of property, plant, and equipment are:
- A. Costs of opening a new facility.
 - B. Costs of introducing a new product or service (including costs of advertising and promotional activities).
 - C. Costs of conducting an operation in a new location or with a new class of purchasers (including costs of staff training).
 - D. Administration and other general overhead costs; and
 - E. Costs of day-to-day servicing or repairs and maintenance.
30. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the



following costs are not included in the carrying amount of an item of property, plant, and equipment:

- A. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
- B. Initial operating losses, such as those incurred while demand for the item's output builds up; and
- C. Costs of relocating or reorganizing part or all of the federal entity's operations.



31. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit and included in their respective classifications of revenue and expense.



32. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If a federal entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see FGAAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. FGAAS 5, Borrowing Costs, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.

Example 45.7 - Recognition of Self-constructed Assets

In January 2026, the Ministry of infrastructure prepared a construction plan for a building for Ministry's administrative staff. Accordingly, costs will be allocated as direct, indirect, fixed and variable to reflect the real value of the asset. On December 31, 2026; the date of preparation of final accounts; the costs of constructions in progress were as follows:

- ✓ Used building materials: AED 6,000,000
- ✓ Direct labor costs: AED 1,000,000
- ✓ Architects' costs: AED 480,000 *
- ✓ Depreciation: AED 320,000 **
- ✓ Other costs (power, water, safety and environmental costs): AED 200,000

Accordingly, the balance of constructions in progress, on the date of preparation of final accounts, was AED 8,000,000

In March 2027, upon completion of the project, the total value of constructions in progress was AED 11,000,000. Upon hand-over of the building, the Ministry of infrastructure transferred the balance of constructions in progress to property, plant and equipment - buildings. Therefore, the Ministry of infrastructure shall make the following entry:

Example 45.7 - Recognition of Self-constructed Assets

Description	Debit	Credit
Fixed Asset - Buildings	11,000,000	
Constructions in Progress		11,000,000

*Two architects were assigned to supervise the construction project for an annual salary of AED 600,000: dedicating 40% of each architect's time for this project (2 x 600,000 x 0.4)

**This depreciation relates to assets (machines / equipment) used in construction works of this project.

33. Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate bearer plants before, they are in the location and condition necessary to be capable of operating in the manner intended by management.

Measurement of Cost

34. The cost of an item of property, plant, and equipment is the cash price equivalent or, its deemed cost at the recognition date. If payment is deferred and the time value of money is material, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in FGAAS 5, Borrowing Costs.

**Example 45.8 - Measurement of Cost through the Current Value of Future Cash Flows**

At the beginning of the current year, the Ministry of Health purchased special equipment from a third party for the value of AED 2,000,000 on the condition that payment is to be deferred for two years with an annual discount rate of 10%.

Accordingly, the Ministry of Health shall make the following entry:

Description	Debit	Credit
Fixed Asset - Special Equipment *	1,652,893	
Payables		1,652,893

*Calculated as follows: $\frac{2,000,000}{(1.1)^2}$

Asset Exchange



35. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant, and equipment is measured at its current value unless:

- A. the exchange transaction lacks commercial substance,
- B. or the current value of neither the asset received, nor the asset given up is reliably measurable.

The acquired item is measured in this way even if a federal entity cannot immediately derecognize the asset given up. If the acquired item is not measured at current value, its cost is measured at the carrying amount of the asset given up.

36. A federal entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- A. The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
- B. The portion of the federal entity's operations affected by the transaction changes as a result of the exchange; and
- C. The difference in (A) or (B) is significant relative to the current value of the assets exchanged.

For the purpose of determining the portion of the federal entity's operations affected by the transaction, the federal entity calculates the present value of the expected cash flows, (or post-tax cash flows when tax applies), to arise from the continuing use of an asset and from its disposal at the end of its useful life. The result of these analyses may be clear without a federal entity having to perform detailed calculations.



37. The current value of an asset is reliably measurable if:

- A. The variability in the range of reasonable current value measurements is not significant for that asset, or
- B. The probabilities of the various estimates within the range can be reasonably assessed and used when measuring current value.

38. If a federal entity is able to measure reliably the current value of either the asset received or the asset given up, then the current value of the asset given up is used to measure the cost of the asset received unless the current value of the asset received is more clearly evident.

Subsequent Measurement



Historical Cost Model

39. After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses.
40. When the measurement requirements are applied to the item of property, plant, and equipment after recognition, a federal entity shall apply FGAAS 46.
41. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in a federal entity's operations. The following are examples of separate classes:
 - A. Land.
 - B. Operational buildings.
 - C. Machinery.
 - D. Ships.
 - E. Aircraft.
 - F. Weapons systems.
 - G. Motor vehicles.
 - H. Furniture and fixtures.
 - I. Office equipment.
 - J. Oil rigs.
 - K. Bearer plants.
 - L. Heritage collections; and
 - M. Infrastructure.

Depreciation



42. Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.
43. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, it may be required to depreciate separately the substructure and the surface of a road. If an entity acquires property, plant, and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to lease terms relative to market terms.
44. To the extent that a federal entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item, in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

45. The entity must depreciate separately the parts of the item that do not have a significant cost in relation to the total cost of the item if:
- the depreciation charge related to these parts is material to the financial statements; and
 - the useful lives of these parts are significantly different, and it is not possible to estimate a single useful life for them.
46. The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.
47. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see FGAAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with FGAAS 31, Intangible Assets.



Example 45.9 - Recognition of Depreciation Charge as part of the Cost of Another Asset

In January 2025, the Ministry of infrastructure prepared a construction plan for a building for Ministry's administrative staff. Accordingly, costs will be allocated as direct, indirect, fixed and variable to reflect the real value of the asset. On December 31, 2025; the date of preparation of final accounts; the costs of constructions in progress were as follows:

- ✓ Used building materials: AED 6,000,000
- ✓ Direct labor costs: AED 1,000,000
- ✓ Architects' costs: AED 480,000
- ✓ Depreciation: AED 320,000 *
- ✓ Other costs (power, water, safety and environmental costs): AED 200,000

Accordingly, the Ministry of infrastructure shall capitalize the depreciation charge associated with the assets used in the project as follows:

Description	Debit	Credit
Constructions in Progress	320,000	
Accumulated Depreciation		320,000

*This depreciation relates to assets (machines/ equipment/ trucks) used in construction works of this project.



Depreciable Amount and Depreciation Period

48. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

49. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with FGAAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.
50. Depreciation is recognized even if the current value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained, or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed, and/or the asset tested for impairment, and adjusted accordingly.
51. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.
52. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.
53. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with FGAAS 44, Non-current Assets Held for Sale and Discontinued Operations and the date when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.

Determination of the Useful Life of an Asset

54. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the federal entity principally through the use of the asset. However, economic, political, social, and legal factors may also affect the useful life. Technical or commercial obsolescence and wear and tear while an asset remains idle may also result in the diminution of the economic benefits or service potential that might otherwise have been obtained from the asset. The useful life is the shorter of the periods identified through consideration of these factors. Consequently, the following factors are considered in determining the useful life of an asset:
 - A. Expected usage of the asset, which is assessed by reference to the asset's expected capacity or physical output.
 - B. Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle.

- C. The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the federal entity's ability and intention to reach such a level.
 - D. The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases.
 - E. Public information on estimates of useful lives of similar assets that are used in a similar way.
 - F. The stability of the industry in which the asset operates and changes in the market or government and service recipients' demand for the products or services output from the asset.
 - G. Whether the useful life of the asset is dependent on the useful life of other assets of the entity.
55. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of a federal entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.
56. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Buildings generally have a finite useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
57. If the carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a finite useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Finite and Indefinite Useful Lives



58. An item of property, plant, and equipment with a finite useful life is depreciated. An item of property, plant, and equipment with an indefinite useful life is not depreciated.
59. The useful lives of property, plant, and equipment, including buildings, are generally finite. However, there are circumstances in which property, plant, and equipment could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset could be considered to have an indefinite useful life, so long as those conditions continue to apply.
60. The term "indefinite" does not mean "infinite." The useful life of property, plant, and equipment should reflect evidence on factors that could affect the useful life at the time of

estimating the asset's useful life. Projections of those factors and the estimated useful life should be realistic, which means that they should be supported by objective evidence.

61. The useful life of an item of property, plant, and equipment may be very long or even indefinite. Uncertainty about an asset's useful life when it is very long does not justify choosing a life that is unrealistically short.
62. Given the history of rapid changes in technology, it will often be the case that computers and other property, plant, and equipment susceptible to technological obsolescence have short useful lives. Expected future reductions in the selling price of an item that was produced using property, plant, and equipment could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.

Annual Impairment Reviews for Assets with Indefinite Useful Lives

63. A federal entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with FGAAS 21 and FGAAS 26.

Depreciation Method



64. The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the federal entity.
65. The depreciation calculation method used to allocate the depreciable amount of an asset on a systematic basis over its useful life shall be the straight-line method which results in a constant charge over the asset's useful life if its residual value remains unchanged.

Impairment

66. To determine whether an item of property, plant, and equipment is impaired, a federal entity applies FGAAS 21 or FGAAS 26, as appropriate. These Standards explain how a federal entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.



Compensation for Impairment

67. Compensation from insurance networks for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.



Example 45.10 - Compensation for Impairment

On September 30, 2025, a fire damaged an asset of a federal entity's machines the carrying amount of which was AED 300,000 (AED 400,000 in costs less AED 100,000 in accumulated depreciation) and the federal entity claimed AED 500,000 in machine replacement costs from the insurance company (third party). On October 10, 2025, after investigating the cause of the fire (electric fault), the insurance company notified the federal entity of complete settlement of its claims.

**Example 45.10 - Compensation for Impairment**

On October 30, 2025, the insurance company paid the federal entity AED 500,000; and on November 15, 2025, the federal entity used this amount (AED 500,000) to purchase a replacement machine which was installed and prepared for immediate use.

Accordingly, the federal entity shall make the following entries:

On September 30, 2025

Description	Debit	Credit
Accumulated Depreciation	100,000	
Loss from Damage	300,000	
Fixed Asset - Old Machine		400,000

On October 10, 2025

Description	Debit	Credit
Receivables - Insurance Company	500,000	
Other Profits - Insurance Compensation		500,000

On October 30, 2025

Description	Debit	Credit
Cash - Bank Account	500,000	
Receivables - Insurance Company		500,000

On November 15, 2025

Description	Debit	Credit
Fixed Asset - New Machine	500,000	
Cash - Bank Account		500,000

Derecognition

68. The carrying amount of an item of property, plant, and equipment shall be derecognized:

- A. On disposal; or
- B. When no future economic benefits or service potential is expected from its use or disposal.



69. The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless FGAAS 43, Leases requires otherwise on a sale and leaseback).

70. The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in FGAAS 9, Revenue from Exchange Transactions for

recognizing revenue from the sale of goods. FGAAS 43 applies to disposal by a sale and leaseback.

71. If, under the recognition principle in paragraph 15, a federal entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for a federal entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired, constructed, or developed.
72. The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.
73. The consideration receivable on disposal of property, plant, and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with FGAAS 9 reflecting the effective yield on the receivable.
74. However, a federal entity that, in the course of its activities, routinely sells items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognized as revenue in accordance with FGAAS 9. FGAAS 44 does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.



Example 45.11 - Derecognition through Sale

At the beginning of the current year, the Ministry of infrastructure sold a machine the carrying amount of which was AED 200,000 (AED 300,000 in costs less AED 100,000 in accumulated depreciation) to a third party for AED 350,000. Once the machine is delivered and risks, future benefits and ownership of the machine are transferred to the buyer, the Ministry of infrastructure shall make the following entries:

Description	Debit	Credit
Cash - Bank Account	350,000	
Accumulated Depreciation	100,000	
Fixed Asset - Machine		300,000
Profit from sale of Assets of Property, Plant and Equipment		150,000

Example 45.12 - Derecognition through Disposal

At the beginning of the current year, the Ministry of infrastructure disposed of a machine the carrying amount of which was AED 20,000 due to the fact that it was no longer in use and most of its parts were out of order (AED 300,000 in costs less AED 280,000 in accumulated depreciation). Accordingly, the Ministry of infrastructure shall make the following entries:

Description	Debit	Credit
Accumulated Depreciation	280,000	
Loss from Disposal	20,000	
Fixed Asset - Machine		300,000

Disclosure**General Disclosure for Property, Plant, and Equipment**

75. The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:
- A. The measurement bases used for determining the gross carrying amount.
 - B. The depreciation methods used.
 - C. The useful lives or the depreciation rates used.
 - D. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
 - E. A reconciliation of the carrying amount at the beginning and end of the period showing:
 - i. Additions.
 - ii. Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with FGAAS 44 and other disposals.
 - iii. Acquisitions through public sector combinations.
 - iv. Impairment losses recognized or reversed in surplus or deficit in accordance with FGAAS 21 or FGAAS 26.
 - v. Depreciation.
 - vi. The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting federal entity; and
 - vii. Other changes.
76. The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:
- A. The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities.

- B. The number of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction or development; and
 - C. The number of contractual commitments for the acquisition, construction, or development of property, plant, and equipment.
77. If not presented separately in the statement of financial performance, the financial statements shall also disclose:
- A. The amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit; and
 - B. The amounts of proceeds and cost included in surplus or deficit that relate to items produced that are not an output of the federal entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.
78. The estimation of the useful life of the assets is a matter of judgment. Therefore, disclosure of the methods adopted, and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:
- A. Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and
 - B. Accumulated depreciation at the end of the period.
79. In accordance with FGAAS 3, a federal entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to:
- A. Residual values.
 - B. The estimated costs of dismantling, removing, or restoring items of property, plant, and equipment.
 - C. Useful lives; and
 - D. Depreciation methods.
80. In accordance with FGAAS 21 and FGAAS 26, a federal entity discloses information on impaired property, plant, and equipment.
81. Users of financial statements may also find the following information relevant to their needs:
- A. The carrying amount of temporarily idle property, plant, and equipment.
 - B. The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use.

- C. The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with FGAAS 44; and
- D. The current value (current operational value or fair value) of property, plant, and equipment when this is materially different from the carrying amount.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment

82. Where heritage property, plant, and equipment or a class of heritage property, plant, and equipment is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the federal entity shall disclose:
- A. The difficulties in obtaining a reliable measurement that prevented recognition; and
 - B. The significance of the unrecognized heritage property, plant, and equipment in relation to delivery of the federal entity's objectives.
83. The disclosures identified above for unrecognized heritage property, plant, and equipment should ensure that, when read in the context of information about recognized property, plant, and equipment, the financial statements provide useful and relevant information about the federal entity's overall holding of property, plant, and equipment, and thereby support users' evaluation of the federal entity's finances, including its net financial position, and understanding of its ability to deliver services.
84. These disclosures may be presented in aggregate for groups or classes of property, plant, and equipment, provided this aggregation does not obscure significant information.
85. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the above disclosure requirements will apply.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026.

When a federal entity adopts the accrual basis of accounting as defined in FGAAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (FGAASs) for financial reporting purposes subsequent to this effective date, this Standard applies to the federal entity's annual financial statements covering periods beginning on or after the date of adoption of FGAAS.

Transition

A federal entity shall apply this Standard retrospectively, in accordance with FGAAS 3 except that:

- A. A federal entity may elect to measure heritage assets at their deemed cost when reliable cost information about these assets is not available at the date of application of this Standard.

- B. If, on initial application of this Standard, there is a difference between the previous carrying amount at fair value and the new carrying amount at fair value or current operational value, a federal entity shall recognize that difference as an adjustment to the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) without restatement of comparative information.

For federal entities that have previously applied FGAAS 17, Property, Plant, and Equipment the requirements of paragraphs 35-36 regarding the initial measurement of an item of property, plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

Withdrawal of FGAAS 17

This Standard supersedes FGAAS 17. FGAAS 17 remains applicable until FGAAS 45, Property, Plant, and Equipment is applied or becomes effective.

Technical References

IPSAS 45, Property, Plant, and Equipment



Standard 46 - Measurement

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to measurement of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version			

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to measurement.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Definitions



The following terms are used in this Standard with the meanings specified:

Term	Definition
Active market	Is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Cost approach	Is a measurement technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
Cost of fulfillment	Are the costs that the federal entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.
Current operational value	Is the amount the federal entity would pay for the remaining service potential of an asset at the measurement date
Deemed cost	Is an amount used as a surrogate for transaction price at the measurement date.
Entry price	Is the price paid to acquire an asset or received to assume a liability in an exchange transaction.
Exit price	Is the price received to sell an asset or paid to transfer a liability.
Expected cash flow	Is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.
Fair value	Is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Highest and best use	Is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.
Historical cost	Is the consideration given to acquire, construct, or develop an asset plus transaction costs, or the consideration received to assume a liability minus transaction costs, at the time the asset is acquired, constructed or developed, or the liability is incurred.
Income approach	Is a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.

Term	Definition
Inputs	Are the assumptions used when pricing the asset or liability, including assumptions about risk, such as the following: A. The risk inherent in a particular measurement technique used to estimate a measurement in accordance with a measurement basis (such as a pricing model); and B. The risk inherent in the inputs to the measurement technique. Inputs may be observable or unobservable
Level 1 inputs	Are quoted prices (unadjusted) in active markets for identical assets or liabilities that the federal entity can access at the measurement date.
Level 2 inputs	Are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs	Are unobservable inputs for the asset or liability.
Market approach	Is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.
Market participants	Are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: A. They are independent of each other, i.e., they are not related parties as defined in FGAAS 20, Related Party Disclosures, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. B. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. C. They are able to enter into a transaction for the asset or liability. D. They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.
Market-corroborated inputs	Are inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Term	Definition
Most advantageous market	Is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.
Non-performance risk	Is the risk that a federal entity will not fulfill an obligation. Non-performance risk includes, but may not be limited to, the federal entity's own credit risk.
Observable inputs	Are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
Orderly transaction	Is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g., a forced liquidation or distress sale).
Principal market	Is the market with the greatest volume and level of activity for the asset or liability.
Risk premium	Is the compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.
Transaction costs	Are incremental costs that are directly attributable to the acquisition, construction, development or disposal of an asset, or incurrence of a liability, and would not have been incurred if the federal entity had not acquired, constructed, developed or disposed of the asset, or incurred the liability.
Transaction price	Is the consideration given to acquire, construct or develop an asset or received to assume a liability.
Transport costs	Are the costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.
Unit of account	Is the level at which an asset or a liability is aggregated or disaggregated in an FGAAS for recognition purposes.
Unobservable inputs	Are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.



Standard 46 - Measurement

Standard 46 - Measurement

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 46 (FGAAS 46). It is worth mentioning that certain text of standard 46 have been rephrased in line with the requirements of UAE Federal Government.

The Measurement Standard - Table of Contents

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Objective



1. The objective of this Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities. The Standard identifies approaches under those measurement bases to be applied through individual FGAAS to achieve the objectives of financial reporting.

Scope



2. A federal entity that prepares and presents financial statements under the accrual basis of accounting shall apply FGAAS 46, Measurement in measuring assets and liabilities.
3. Except as specified in paragraph 4, this Standard applies when another FGAAS requires or permits:
 - A. One or more of the measurement bases defined in this Standard; and
 - B. Measurements that are based on one or more of the measurement bases (e.g., fair value less costs of disposal).
4. The measurement requirements of this Standard do not apply to the following:
 - A. Leasing transactions accounted for in accordance with FGAAS 43, Leases.
 - B. Transactions accounted for in accordance with FGAAS 32, Service Concession Arrangements: Grantor, and
 - C. Measurements that have some similarities to the measurement bases in this Standard but are not those measurement bases, such as net realizable value in FGAAS 12, Inventories or value in use in FGAAS 21, Impairment of Non-Cash-Generating Assets and FGAAS 26, Impairment of Cash-Generating Assets (but this Standard is applied in measuring fair value as required in FGAAS 21 and 26).
5. The measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in the individual FGAAS.

Measurement

Initial Measurement



6. On the date an item qualifies for recognition, it shall be initially measured at its transaction price, plus transaction costs for assets or minus transaction costs for liabilities, unless:
 - A. That transaction price, plus or minus transaction costs, does not faithfully present relevant information of the federal entity in a manner that is useful in holding the federal entity to account, and for decision-making purposes (see paragraphs 9-12); or
 - B. Otherwise required or permitted by another FGAAS.

When applying accrual basis FGAAS for the first time, initial measurement in an opening statement of financial position at the date of adoption of FGAAS should be carried out in accordance with FGAAS 33, First-time Adoption of Accrual Basis Federal Government Accrual Accounting Standards (FGAASs).

Transactions in an Orderly Market

7. When an asset is acquired, constructed, or developed, or a liability is assumed in an orderly market, the transaction price, plus or minus transaction costs, reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.
8. Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, a federal entity shall consider factors specific to the transaction and to the asset or liability.

Transactions not Undertaken in an Orderly Market

9. When an asset is acquired, constructed, or developed, or a liability is assumed, as a result of an event that is not a transaction in an orderly market:
 - A. It may not be possible to observe a transaction price.
 - B. The transaction price may not faithfully present relevant information about the asset or liability; or
 - C. The transaction price may be zero.

In such cases, deemed cost is used to measure the initial value of the asset or liability. A current value measurement basis is used to determine the deemed cost of the asset or liability on initial measurement. Current value measurement bases are described in paragraphs 22-30.

10. Any difference between deemed cost and any consideration given or received would be recognized as revenue or expenses, unless it is a contribution from owners or a relevant FGAAS requires otherwise.
11. Circumstances where a transaction price may not be observable or may not faithfully present relevant information include:

- A. Transaction prices that have a concessionary element.
 - B. Assets transferred to the federal entity free of charge by a government or donated to the federal entity by another party.
 - C. Liabilities imposed by legislation or regulation.
 - D. Liabilities to pay compensation or a penalty arising from an act of wrongdoing or breach of contract.
 - E. Transaction prices that are affected by relationships between the parties, or by financial distress or other duress of one of the parties; and
 - F. Transaction prices that are not available on the date of adoption of FGAAS as defined in FGAAS 33.
12. When assets are acquired, constructed, or developed, or liabilities assumed, as a result of an event that is not a transaction in an orderly market, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognize other assets, other liabilities, contributions from owners or distributions to owners to faithfully represent the substance of the effect of the transaction or other event on the federal entity's financial position and any related effect on the federal entity's financial performance.

Transaction Costs at Initial Measurement

13. Transaction costs related to acquiring, constructing, or developing, an asset or incurring a liability are a feature of the transaction in which the asset was acquired, constructed, or developed, or the liability was incurred. The initial measurement of the asset or liability reflects those transaction costs as the federal entity could not have acquired, constructed, or developed the asset or assumed the liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or in settling or transferring a liability are a feature of a possible future transaction. Unless explicitly required, possible transaction costs are not included because initial measurement reflects the costs of acquiring the asset or incurring the liability.

Transaction Occurring in Stages

14. The acquisition of an asset may occur in stages or may be followed by further expenditures to adapt the asset for the federal entity's own use. Any expenditures incurred in bringing the asset to their location where it is ready for use will be included in the consideration identified as part of the asset's initial measurement.

Deferred Payments

15. Where the time value of money is material—for example, where the length of time before settlement falls due is significant—the amount of the future cash flows is discounted so that, at the time an asset or liability is first recognized, it represents the value of the amount received or paid. For example, the difference between the amount of the future cash flows and the present value of the asset or liability is amortized over the life of the asset or liability, so that the asset or liability is stated at the amount due to be received, or the required payment when it falls due.

Subsequent Measurement



16. After initial measurement, unless otherwise required by the relevant FGAAS, an accounting policy choice is made to measure an asset or liability on an historical cost basis or a current value basis. This accounting policy choice is reflected through the selection of the measurement model.

Measurement Models

17. Assets and liabilities recognized in financial statements are quantified in historical terms or current terms. This requires the selection of an historical cost or current value measurement model. In selecting a measurement model, a federal entity shall consider the characteristics of the item, the measurement objective and the monetary information being presented.

Measurement Bases

18. A measurement basis provides information that achieves the qualitative characteristics, as described in the Conceptual Framework for General Purpose Financial Reporting by Federal Entities (the Conceptual Framework) and ensures the constraints on information in GPFRs are considered under the measurement model selected. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related revenue and expenses. The selection of a measurement basis depends on the measurement model applied (see diagram after paragraph 35).
19. When another FGAAS establishes measurement requirements with reference to one or more of the measurement bases below, a federal entity shall apply the measurement basis in accordance with the requirements in this Standard:
 - A. Historical cost basis.
 - B. Current operational value basis.
 - C. Cost of fulfillment basis; and
 - D. Fair value basis.

Historical Cost Basis

20. The historical cost basis is an entry, federal entity-specific value. The historical cost basis provides monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.
21. Following initial measurement, the value of an asset or liability is not remeasured to reflect current conditions or increases in the value of the asset or decreases in the value of the liability.

Current Operational Value Basis



22. Current operational value provides monetary information about assets, and related amortization, depreciation, etc., using information updated to reflect conditions at the measurement date. Current operational value therefore reflects changes in the values of

assets since the previous measurement date. Similar to fair value and cost of fulfillment, current operational value is not dependent, even in part, on the transaction or event that gave rise to the asset.

23. In some cases, current operational value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly. For example, if prices are available for a similar asset, the current operational value of the federal entity's asset might need to be estimated by adjusting the current price of the similar asset to reflect the unique aspects of the federal entity's asset in its existing use and condition.



24. Current operational value differs from fair value because it:
- A. Is explicitly an entry price and includes all the costs that would necessarily be paid for the remaining service potential of an asset.
 - B. Reflects the value of an asset in its existing use, rather than the asset's highest and best use (for example, a building used as a hospital is measured as a hospital); and
 - C. Is federal entity-specific and therefore reflects the economic position of the federal entity.

Cost of Fulfillment Basis

25. Cost of fulfillment is an exit, federal entity-specific cost that the federal entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Cost of fulfillment is the present value of the cash, or other economic resources, that the federal entity expects to be obliged to transfer as it fulfills a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the federal entity expects to be obliged to transfer to other parties to enable it to fulfill the liability.
26. Cost of fulfillment cannot be observed directly and is determined using cash-flow-based measurement techniques. The cost of fulfillment reflects federal entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would use and those a federal entity itself uses.
27. The cost of fulfillment reflects the same factors as those reflected in fair value measurement, but from a federal entity-specific perspective, rather than from a market-participant perspective.

Fair Value Basis

28. Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The fair value of an asset or liability is not dependent, even in part, on the transaction or event that gave rise to the asset or liability.

29. Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.
30. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly.

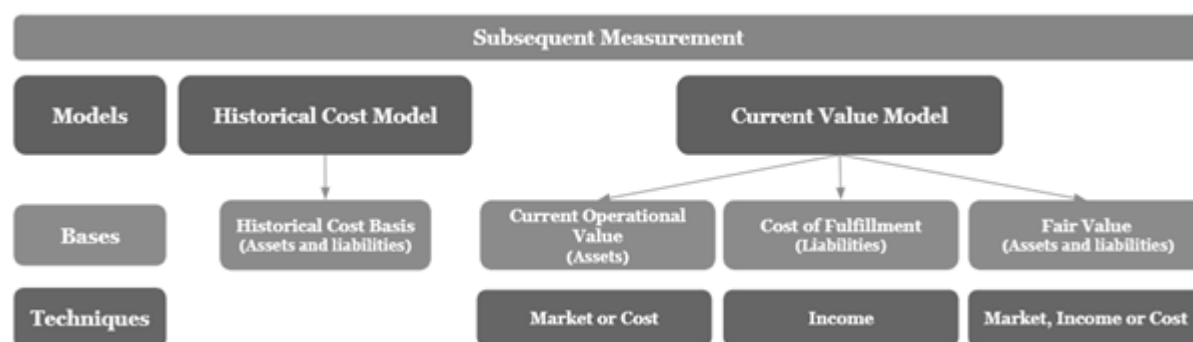
Characteristics of the Asset or Liability

31. A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis, a federal entity shall take into account the characteristics of the asset or liability at the measurement date (for example, for fair value measurement the characteristics are considered if market participants would take those characteristics into account when pricing the asset or liability). Such characteristics include, for example, the following:
- A. The condition, use and location of the asset; and
 - B. Restrictions, if any, on the sale or use of the asset.
32. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the federal entity, for federal entity-specific measurements, and by market participants, for market-based measurements.
33. The asset or liability measured might be either of the following:
- A. A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or
 - B. A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).
34. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes, depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the FGAAS that requires or permits the application of one or more measurement bases identified in this Standard, except where specified differently in this Standard.

Measurement Techniques

35. A federal entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to estimate the measurement basis or determine deemed cost.

The following diagram sets out the subsequent measurement framework based on the Conceptual Framework "Measurement of Assets and Liabilities in Financial Statements". This diagram illustrates the three levels of measurement and the relationships between them.



36. A measurement technique is applied to estimate the amount at which an asset or liability is recognized under the selected measurement basis or in determining deemed cost (see paragraph 9). Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 28-30.
37. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 41-44. A federal entity shall use measurement techniques consistent with one or more of those approaches to measure the asset or liability under the selected measurement basis.
38. In some cases, a single measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement techniques are used to measure the asset or liability under the selected measurement basis, the results shall be evaluated considering the reasonableness of the range of values indicated by those results.
39. Measurement techniques shall be applied consistently. However, a change in a measurement technique or its application is appropriate if the change results in a measurement that is equally or more representative of the measurement basis in the circumstances. That might be the case if, for example, any of the following events take place:
- New markets develop.
 - New information becomes available.
 - Information previously used is no longer available.
 - Measurement techniques improve; or
 - Market conditions change.
40. Revisions resulting from a change in the measurement technique, or its application shall be accounted for as a change in accounting estimate in accordance with FGAAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. However, the disclosures in FGAAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurement technique or its application.



Market Approach

41. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities.

Cost Approach

42. The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.
43. The cost of a substitute asset of comparable utility is calculated as the cost of a modern equivalent asset—that is, an asset providing an equivalent service as the existing asset.

Income Approach

44. The income approach converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis reflects current expectations about those future amounts.

Depreciation, Impairment and Other Adjustments

45. Depreciation and impairment are applicable to measurement bases in the historical cost model and the current value model. Neither depreciation nor impairment are measurement bases or measurement techniques in their own right. They are methods to reflect the consumption of the asset or loss of the future economic benefits or service potential of the asset.



46. Under both the historical cost model and the current value model, an asset is updated over time to depict:

- A. The consumption of part or all of the resource that constitutes the asset (depreciation or amortization).
- B. Payments received that extinguish part or all of the asset.
- C. The effect of events that cause part or all of the asset to no longer be recoverable (impairment); and
- D. Accrual of interest to reflect any financing component of the asset.



47. Under both the historical cost model and the current value model, a liability is updated over time to depict:

- A. Fulfillment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods or services.

- B. The effect of events that increase the value of the obligation to transfer the resources needed to fulfill the liability to such an extent that the liability becomes onerous. A liability is onerous if the carrying amount is no longer sufficient to depict the obligation to fulfill the liability; and
- C. Accrual of interest to reflect any financing component of the liability.



Transaction Costs in Subsequent Measurement

- 48. Transaction costs are incremental costs that would not have been incurred if the federal entity had not acquired, constructed, developed or disposed of the asset or incurred, transferred, or settled the liability.
- 49. Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the federal entity had not acquired the asset, these costs are not transaction costs, as they are not a direct result of the transaction.
- 50. Costs attributable to the acquisition, construction, or development, of an asset relate specifically to costs of transfer of control. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer (e.g., borrowing costs), are excluded from the definition of transaction costs.
- 51. Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether a federal entity is recognizing an asset or liability using an entry-based measurement basis or an exit-based measurement basis impacts whether those transaction costs are included in, or excluded from, the item's measurement.
- 52. Transaction costs can arise when an asset is acquired, constructed, or developed or a liability is assumed, when an asset is disposed of, or a liability is settled or transferred. As transaction costs incurred in acquiring, constructing, or developing an asset or assuming a liability are a feature of the transaction in which the asset was acquired, constructed or developed, or the liability was assumed, such transaction costs incurred in entering into a transaction are included in entry-based measurement bases. Transaction costs that would be incurred in disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction costs that would be incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is federal entity-specific.

Disclosure



- 53. A federal entity shall disclose information that helps users of its financial statements assess the measurement basis, the measurement techniques and inputs used to develop those measurements.

54. To meet the objectives in the previous paragraph, a federal entity shall apply the measurement disclosure requirements in the relevant FGAAS to which the measurement of the asset or liability applies.

Transition

This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual periods beginning on or after January 1, 2026. When a federal entity adopts the accrual basis FGAAS of accounting as defined in FGAAS 33 for financial reporting purposes subsequent to this effective date, this Standard applies to the federal entity's annual financial statements covering periods beginning on or after the date of adoption of accrual basis FGAAS.

Technical References

IPSAS 46, Measurement.



Appendix A - Historical Cost

Measurement

1. The objective of the historical cost measurement basis is to provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction (or deemed cost, where applicable) or another event that gave rise to them.
2. The historical cost basis is:
 - A. The consideration given to acquire, construct and/or develop an asset plus transaction costs.
 - B. The consideration received to assume a liability minus transaction costs; or
 - C. The deemed cost of the asset or liability or another event that gave rise to it.

The consideration is the cash or cash equivalents, or the value of the other consideration given or received at the time, or period over which, the asset is acquired, constructed, or developed or the liability is assumed.

Initial Measurement

3. Initial measurement is determined in accordance with paragraphs 6-15 of the 46 standards (the core standard).

Subsequent Measurement

4. After initial measurement, the gross carrying amount of an asset or liability measured using the historical cost basis remains unaffected by changes in the underlying current market conditions, unless those changes trigger an impairment. For example, the amount at which an item of property, plant, and equipment is recorded is not updated to reflect an increase in the current market price of the item after it has been acquired, constructed, or developed.
5. However, as with current value measurements, the carrying amount of an asset or liability measured using the historical cost basis is updated to reflect changes to the item as noted in paragraphs 46 and 47 of the 46 standards (the core standard).

Amortized Cost

6. The historical cost basis is applied to financial instruments by measuring the instruments at amortized cost. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial measurement. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.



Appendix B - Current Operational Value

Measurement

1. The objective of a current operational value measurement is to estimate the amount a federal entity would pay for a non-financial asset at the measurement date. A current operational value measurement requires a federal entity to determine all of the following:
 - A. The amount the federal entity would pay. This includes assessing the price that would be paid in an active market, or the cost the federal entity would incur, for the asset in the least costly manner.
 - B. The remaining service potential of the asset. This considers the current condition of the asset.
 - C. The asset (consistent with its unit of account). This includes assessing the asset's existing use and location.
 - D. The measurement technique(s) appropriate for estimating (a) to (c) considering the availability of data that faithfully represents the assumptions that are specific to the federal entity.
2. Current operational value reflects the following:
 - A. In the statement of financial position, current operational value reflects the amount a federal entity would pay at the measurement date for the remaining service potential of its existing asset.
 - B. In the statement of financial performance, current operational value reflects the consumption of the asset in providing the service based on conditions at the measurement date. This differs from the historical cost basis which reflects consumption of the asset based on the prices when the asset was acquired, constructed, or developed, and initially recognized.

The Amount an Entity would Pay

3. Current operational value is the amount that an entity would pay for the remaining service potential of an asset in the least costly manner based on conditions at the measurement date regardless of whether that price is directly observable or not.
4. The amount a federal entity would pay is:
 - A. The price to acquire the identical, or a similar, asset in an active market; or
 - B. The costs that would be incurred to develop or produce the identical, or a similar, asset.
5. When an active market exists for the identical, or a similar, asset, current operational value uses this price as the amount a federal entity would pay for the asset.
6. When no active market exists, a reliable acquisition price for an identical, or similar, asset will generally not exist. Current operational value will then need to be estimated based on the costs to develop or produce the asset using available price information. For example, many military assets, such as an aircraft, generally do not have active markets. Such assets often

cannot be acquired as a finished product that is identical, or similar, to the aircraft under valuation. Measuring the cost of each part of the asset, such as the fuselage, engine, electronics etc., and the cost to assemble them into the same, or similar, aircraft, adjusted for the age, functionality, and condition, will generally be necessary to estimate the aircraft's current operational value.

Entry Price

7. The current operational value of an asset represents an entry price. Any transaction costs that would be incurred in obtaining the asset are included in the current operational value measurement.

Entity-Specific Value

8. A federal entity shall measure the current operational value of an asset using assumptions from the federal entity's perspective, based on the way the existing asset is used. Those assumptions shall reflect the economic, legal and other constraints that affect the possible uses of the asset. For example, the federal entity will consider the amount it would pay for that type of asset based on its existing use and not consider the value for alternative uses for that asset.

The Least Costly Manner

9. A current operational value measure assumes the amount an entity would pay for the remaining service potential of an asset at the measurement date is the least costly amount for the asset.
10. A federal entity need not undertake an exhaustive search of all acquisition methods to identify the least costly amount, but it shall consider all information that could reasonably have been expected to be obtained and taken into account.

Observable Inputs

11. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a current operational value in both cases is the same-to estimate the amount the entity would pay for the remaining service potential of the asset based on conditions at the measurement date (i.e., an entry price at the measurement date from the perspective of the federal entity that holds the asset).
12. When a price for an identical, or similar, asset is not observable, a federal entity measures current operational value using another valuation technique that uses observable inputs, where feasible.
13. Because current operational value is a federal entity-specific value, it is measured using the assumptions from the federal entity's perspective. These federal entity-specific assumptions may result from information that is not available publicly. For example, the cost to construct an asset may include labor costs of employees of the federal entity, as opposed to contract workers. As a result, an entity's intention in how costs are incurred to construct an asset is relevant when measuring current operational value.

Remaining Service Potential

14. Current operational value is the amount the federal entity would pay for the remaining service potential of an asset. The remaining service potential of the asset takes into account the current age, functionality, and condition of the asset held by the federal entity.
15. In order to reflect the current age, functionality, and condition, the following factors are considered:
 - A. Physical obsolescence relates to any loss of service potential due to the physical deterioration of the asset or its components resulting from its age and use.
 - B. Functional obsolescence relates to any loss of service potential resulting from inefficiencies in the asset that is being valued compared with its modern equivalent.
 - C. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the federal entity.

The Asset

16. Current operational value is the amount the entity would pay for the remaining service potential of a specific asset. The following key aspects affect the measurement of an asset's current operational value:
 - A. The existing asset.
 - B. The existing use of the asset; and
 - C. The existing location of the asset.

Existing Asset

17. Current operational value assumes the federal entity will continue to deliver goods and/or services by using the identical, or a similar, asset.
18. The identical, or a similar, asset delivers goods and/or services in the same manner as the asset being measured. For example, a power authority that delivers electricity measures the amount it would pay for the remaining service potential of its generation facilities based on the nature of its existing facilities. If the generation facilities are solar farms, the amount a federal entity would pay for the remaining service potential of the asset is based on a solar farm as opposed to an alternative asset, such as a wind farm, that could also deliver the service.

Existing Use of the Asset

19. Current operational value is the amount the federal entity would pay for the remaining service potential of an asset based on its existing use. 'Existing use' is the way an asset, or group of assets, is used and generally reflects the policy objectives of the entity operating the asset. For example, a ministry of health is responsible for the wellbeing of citizens. Assets such as buildings are used as hospitals to deliver health care services rather than for commercial purposes.

20. Measuring the existing use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value. For example, the existing use of a building operated as a school, is for the delivery of educational services. Alternative uses, such as the operation of the building as an office block held for rental at market rates are not considered. The existing use may be, but is not necessarily, the highest and best use.
21. Any unused portion of the asset in its existing use is evaluated to determine whether the unused portion is held for a specific operational purpose associated with the asset.

Existing Location of the Asset

22. The asset's current operational value assumes that the federal entity will continue to deliver goods and/or services from the same location in which the asset is currently situated or used.
23. The current operational value of an asset that cannot be physically moved reflects the value of the physically immovable asset in its existing location. For example, a hospital operating in a city center that could be situated in the suburbs, due to the migration of the population, is measured based on the amount a federal entity would pay for the hospital at its existing location (e.g., the amount required for a building includes construction costs, permits, regulations, etc. based on costs that would be paid at the existing location).

Measurement Techniques

24. The widely used measurement techniques are the market approach and the cost approach. A federal entity uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current operational value, using observable inputs, where feasible.
25. In some cases, current operational value cannot be determined directly by observing prices in an active market and must be determined by other means. For example, if prices are available only for new assets, the current operational value of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age, functionality, and condition of the asset held by the federal entity.
26. If multiple measurement techniques are used to measure current operational value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current operational value measurement is the point within that range that is the most representative value of the remaining service potential of the asset in the circumstances.

Market Approach

27. Applying the market approach to measure the current operational value of an asset requires the existence of an active market with transactions involving identical or similar assets.
28. The market approach uses an asset price from an orderly transaction in the principal market (or the market that minimizes the amount that would be paid to acquire the asset) for the federal entity at the measurement date.
29. Identical or similar assets include the same characteristics as the asset being measured. When measuring the current operational value of an asset using the market approach an

asset with an identical or similar remaining useful life, service potential, etc. must be identified.

Cost Approach

30. The current operational value of an asset should be established using the cost approach when no active market for similar or identical assets exists. The more specialized the asset, the less likely an active market exists and the more likely the cost approach will need to be applied.
31. When the existence of market transactions involving identical or similar assets does not exist, current operational value is the cost to develop or produce the identical, or a similar, asset.
32. Applying the cost approach means current operational value cannot be determined by observing prices in an active market. However, measuring the current operational value using the cost approach continues to require the use of relevant observable inputs for parts of the asset, where the federal entity would acquire those parts from the market.

Appendix C - Fair



Value

Measurement

1. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires a federal entity to determine all the following:
 - A. The particular asset or liability that is the subject of the measurement (consistently with its unit of account).
 - B. For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
 - C. The principal (or most advantageous) market for the asset or liability; and
 - D. The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

The Transaction

2. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.
3. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
 - A. In the principal market for the asset or liability; or
 - B. In the absence of a principal market, in the most advantageous market for the asset or liability.
4. A federal entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the federal entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.
5. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement technique), even if the price in a different market is potentially more advantageous at the measurement date.
6. The federal entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous)

market (and thus, market participants) shall be considered from the perspective of the federal entity, thereby allowing for differences between and among entities with different activities.

7. Although a federal entity must be able to access the market, the federal entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.
8. Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

Market Participants

9. A federal entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
10. In developing those assumptions, a federal entity need not identify specific market participants. Rather, the federal entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:
 - A. The asset or liability.
 - B. The principal (or most advantageous) market for the asset or liability; and
 - C. Market participants with whom the federal entity would enter into a transaction in that market.

The Price

11. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurement technique.
12. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other FGAAS. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how a federal entity enters into a transaction for the asset or liability.
13. Transaction costs do not include transport costs. If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

Application to non-financial assets

Highest and Best Use for Non-Financial Assets

14. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
15. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:
 - A. A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property).
 - B. A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property).
 - C. A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate revenue or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.
16. Highest and best use is determined from the perspective of market participants, even if the federal entity intends a different use. However, a federal entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.
17. To protect the public interest, or for other reasons, a federal entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, which might be the case for an acquired intangible asset, such as a drug patent, that the federal entity plans to use to manufacture vaccines for its citizens. Nevertheless, the federal entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

Valuation Premise for Non-Financial Assets

18. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:
 - A. The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation).
 - ✓ If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets

and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants.

- ✓ Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.
- ✓ Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.

- B. The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

19. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other FGAAS (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.

20. When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For example:

- A. The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).
- B. An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).

- C. An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods.
- D. An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the measurement technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurement technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.
- E. In more limited situations, when a federal entity uses an asset within a group of assets, the federal entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).

Fair Value at Initial Recognition

- 21. When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.
- 22. In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).
- 23. When determining whether fair value at initial recognition equals the transaction price, a federal entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph 25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.
- 24. If another FGAAS requires or permits a federal entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the federal entity shall recognize the resulting gain or loss in surplus or deficit unless that FGAAS specifies otherwise.
- 25. When determining whether fair value at initial recognition equals the transaction price, a federal entity shall take into account factors specific to the transaction and to the asset or

liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

- A. The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the federal entity has evidence that the transaction was entered into at market terms.
- B. The transaction takes place under duress, or the seller is forced to accept the price in the transaction. For example, which might be the case if the seller is experiencing financial difficulty.
- C. The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another FGAAS, or the transaction price includes transaction costs.
- D. The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the federal entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.
- E. The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).

Measurement Techniques

- 26. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.
- 27. A federal entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
- 28. The objective of using a measurement technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 31-36. A federal entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.
- 29. If multiple measurement techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

30. If the transaction price is fair value at initial recognition and a measurement technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the measurement technique shall be calibrated so that at initial recognition the result of the measurement technique equals the transaction price. Calibration ensures that the measurement technique reflects current market conditions, and it helps a federal entity to determine whether an adjustment to the measurement technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurement technique). After initial recognition, when measuring fair value using a measurement technique or techniques that use unobservable inputs, a federal entity shall ensure that those measurement techniques reflect observable market data (e.g., the price for a similar asset or liability) at the measurement date.

Market Approach

31. Measurement techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgment, considering qualitative and quantitative factors specific to the measurement.
32. Measurement techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

Cost Approach

33. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Market Participant

34. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

Income Approach

35. When estimating fair value, the income approach can be applied using several methods. Those methods include, for example, the following:
- A. Present value techniques (see the next paragraph).

- B. Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and
- C. The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Present Value Techniques

36. Paragraphs 3737 - 49 describe the use of present value techniques to measure fair value.

Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The Components of a Present Value Measurement

37. Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:

- A. An estimate of future cash flows for the asset or liability being measured.
- B. Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.
- C. The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).
- D. The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium).
- E. Other factors that market participants would take into account in the circumstances.
- F. For a liability, the non-performance risk relating to that liability, including the federal entity's (i.e., the obligor's) own credit risk.

General Principles

38. Present value techniques differ in how they capture the elements in previous paragraph. However, all the following general principles govern the application of any present value technique used to measure fair value:

- A. Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.

- B. Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.
- C. To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- D. Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation.
- E. Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and Uncertainty

- 39. A measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.
- 40. Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.
- 41. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:
 - A. The discount rate adjustment technique (see paragraphs 42- 44) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.
 - B. Method 1 of the expected present value technique (see paragraph 47) uses risk-adjusted expected cash flows and a risk-free rate.
 - C. Method 2 of the expected present value technique (see paragraph 48) uses expected cash flows that are not risk-adjusted, and a discount rate adjusted to

include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

Discount Rate Adjustment Technique

42. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).
43. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a 'build-up' approach).

Example 46.1 - Build Up Approach

To illustrate a build-up approach, assume that Asset A is a contractual right to receive AED 800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

- A. Asset B is a contractual right to receive AED 1,200 in one year and has a market price of AED 1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent $[(\text{AED } 1,200 / \text{AED } 1,083) - 1]$.
- B. Asset C is a contractual right to receive AED 700 in two years and has a market price of AED 566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent $[(\text{AED } 700 / \text{AED } 566)^{0.5} - 1]$.
- C. All three assets are comparable with respect to risk (i.e., dispersion of possible payoffs and credit).

On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (AED 800) and the one-year market rate derived from Asset B (10.8 per cent), the value of Asset A is AED 722 ($\text{AED } 800 / 1.108$). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the

Example 46.1 - Build Up Approach

build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.

44. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

Expected Present Value Technique

45. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).
46. In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:
- A. Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.
 - B. Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

47. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow.



Example 46.2- Method 1 of The Expected Present Value Technique

If a market participant was willing to trade an expected cash flow of AED 1,200 for a certain cash flow of AED 1,000, the AED 1,000 is the certainty equivalent of the AED 1,200 (i.e., the AED 200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.

48. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

**Example 46.3- Methods 1 and 2 of The Expected Present Value Technique**

To illustrate Methods 1 and 2, assume that an asset has expected cash flows of AED 780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

Possible cash flows	Probability	Probability-weighted cash flows
500 AED	15%	75 AED
800 AED	60%	480 AED
900 AED	25%	225 AED
Expected cash flows		780 AED

In this simple illustration, the expected cash flows (AED 780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, a federal entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the federal entity more specifically), taking into account the assumptions of market participants.

In theory, the present value of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:

- A. Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of



Example 46.3- Methods 1 and 2 of The Expected Present Value Technique

the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of AED 22) could be determined using the systematic risk premium of 3 per cent ($\text{AED } 780 - [\text{AED } 780 \times (1.05/1.08)]$), which results in risk-adjusted expected cash flows of AED 758 ($\text{AED } 780 - \text{AED } 22$). The AED 758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (i.e., the fair value) of the asset is AED 722 ($\text{AED } 758/1.05$).

- B. Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value of the asset is AED 722 ($\text{AED } 780/1.08$).

49. When using an expected present value technique, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgments applied.

Inputs to Measurement Techniques

General Principles

50. Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.
51. Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following:
- A. Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value.
 - B. Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment).
 - C. Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words,

brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.

- D. Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.
52. A federal entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 31 and 32 of the 46 standard (the core standard)). In some cases, those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the FGAAS that requires or permits the fair value measurement (see paragraphs 34 and 35 of the 46 standard (the core standard)). Premiums or discounts that reflect size as a characteristic of the federal entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the federal entity, as described in paragraph 61) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, a federal entity shall use that price without adjustment when measuring fair value, except as specified in paragraph 60.

Fair Value Hierarchy

53. To increase consistency and comparability in fair value measurements and related disclosures, this Appendix establishes a fair value hierarchy that categorizes into three levels the inputs to measurement techniques used to measure fair value (see paragraphs 57-84). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).
54. In some cases, the inputs used to measure the fair value of an asset, or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs of disposal, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.

55. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurement techniques (see paragraph 27). However, the fair value hierarchy prioritizes the inputs to measurement techniques, not the measurement techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.
56. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, a federal entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.

Level 1 Inputs

57. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the federal entity can access at the measurement date.
58. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph 60.
59. A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:
- A. The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and
 - B. Whether the federal entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.
60. A federal entity shall not make an adjustment to a Level 1 input except in the following circumstances:
- A. When a federal entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the federal entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, a federal entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.

- B. When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. A federal entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.
 - C. When measuring the fair value of a liability or a federal entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see FGAAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.
61. If a federal entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the federal entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 Inputs

62. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
63. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:
- A. Quoted prices for similar assets or liabilities in active markets.
 - B. Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - C. Inputs other than quoted prices that are observable for the asset or liability, for example:
 - ✓ Interest rates and yield curves observable at commonly quoted intervals.
 - ✓ Implied volatilities; and
 - ✓ Credit spreads.
 - D. Market-corroborated inputs.
64. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

- A. The condition or location of the asset.
 - B. The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in FGAAS 41); and
 - C. The volume or level of activity in the markets within which the inputs are observed.
65. An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.
66. The next paragraph describes the use of Level 2 inputs for particular assets and liabilities.
67. Examples of Level 2 inputs for particular assets and liabilities include the following:
- A. Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired federal entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.
 - B. Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least number of subjective adjustments should be used for the fair value measurement.
 - C. Building held and used. A Level 2 input would be the price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations.
 - D. Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational, market, financial and non-financial factors.

Level 3 Inputs

68. Level 3 inputs are unobservable inputs for the asset or liability.
69. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if

any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

70. Assumptions about risk include the risk inherent in a particular measurement technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurement technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the federal entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs 71-81).

Measuring Fair Value when the Volume or Level of Activity for an Asset or a Liability has Significantly Decreased

71. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, a federal entity shall evaluate the significance and relevance of factors such as the following:
- A. There are few recent transactions.
 - B. Price quotations are not developed using current information.
 - C. Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets).
 - D. Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
 - E. There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the federal entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.
 - F. There is a wide bid-ask spread or significant increase in the bid-ask spread.
 - G. There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities.

H. Little information is publicly available (e.g., for transactions that take place in a principal-to- principal market).

72. If a federal entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if a federal entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the federal entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).
73. This Appendix does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs 26-29 and 31-40 for a discussion of the use of measurement techniques when measuring fair value. Regardless of the measurement technique used, a federal entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph 46). Otherwise, the measurement does not faithfully represent fair value. In some cases, determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.
74. If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurement technique or the use of multiple measurement techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurement techniques, a federal entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.
75. Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.
76. Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgment. A federal entity's intention

to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market- based measurement, not a federal entity-specific measurement.

Identifying Transactions that are not Orderly.

77. The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:
- A. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
 - B. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
 - C. The seller is in or near bankruptcy or receivership (i.e., the seller is distressed).
 - D. The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced).
 - E. The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.
 - F. federal entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.
78. A federal entity shall consider all the following when measuring fair value or estimating market risk premiums:
- A. If the evidence indicates that a transaction is not orderly, a federal entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.
 - B. If the evidence indicates that a transaction is orderly, a federal entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:
 - ✓ The volume of the transaction.
 - ✓ The comparability of the transaction to the asset or liability being measured.
 - ✓ The proximity of the transaction to the measurement date.
 - C. If a federal entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating

market risk premiums). When a federal entity does not have sufficient information to conclude whether particular transactions are orderly, the federal entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

- D. A federal entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When a federal entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

Using Quoted Prices Provided by Third Parties

- 79. This Appendix does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if a federal entity has determined that the quoted prices provided by those parties are developed in accordance with this Appendix.
- 80. If there has been a significant decrease in the volume or level of activity for the asset or liability, a federal entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a measurement technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, a federal entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.
- 81. Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.

Level 3 Inputs

- 82. A federal entity shall develop unobservable inputs using the best information available in the circumstances, which might include the federal entity's own data. In developing unobservable inputs, a federal entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants. An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, a federal entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.
- 83. The next paragraph describes the use of Level 3 inputs for particular assets and liabilities.
- 84. Examples of Level 3 inputs for particular assets and liabilities include the following:
 - A. Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.

- B. Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.
- C. Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.
- D. Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the federal entity's own data about the future cash outflows to be paid to fulfill the liability (including market participants' expectations about the costs of fulfilling the liability and the compensation that a market participant would require for taking on the liability to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the federal entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.
- E. Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the federal entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.



Appendix D - Cost of Fulfillment

Measurement

1. The objective of the cost of fulfillment measurement is to estimate the value of a liability assuming the federal entity will fulfill the liability in the least costly manner. A cost of fulfillment measurement requires a federal entity to determine all the following:
 - A. The particular liability that is the subject of the measurement (consistently with its unit of account).
 - B. The manner in which the liability will be settled.

The Least Costly Manner

2. The cost of fulfillment assumes that the liability is settled by the federal entity in the least costly manner.
3. The cost of fulfillment represents the amount the federal entity is obligated to incur to settle the liability. This liability represents the minimum amount a federal entity will incur assuming the federal entity completely satisfies the liability. For example, a federal entity may have a liability to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the federal entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfill the minimum liability of restoring the land to its original condition and therefore are not representative of the cost to fulfill the liability. In cases where a federal entity intends to fulfill the liability beyond its commitment, guidance in FGAAS 19, Provisions, Contingent Liabilities and Contingent Assets, should be applied when accounting for an amount in excess of the cost to fulfill.
4. The federal entity must have the ability to access the fulfillment method that results in the liability being settled in the least costly manner at the expected fulfillment date. Because different federal entities (and operations within those federal entities) with different activities may have access to a variety of fulfillment methods, the least costly manner for the same liability might be different for different federal entities (and operations within those federal entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among federal entities with different activities and circumstances.
5. A federal entity need not undertake an exhaustive search of all fulfillment methods to identify the least costly manner of fulfillment, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of fulfillment is presumed to be the manner in which the federal entity has currently selected to release itself from the liability. For example, if the federal entity elects to fulfill its decommissioning liability using its own employees, it is presumed this is the least costly manner of fulfillment, regardless of the federal entity's ability to contract the decommissioning to third parties.
6. Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the federal entity will incur. This may be the cost to the federal entity of doing the remedial work itself, or of contracting with

an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the liability and the entity has the ability to access the fulfillment method.

7. Where fulfillment will be made by the federal entity itself, the cost of fulfillment does not include any margin above costs, because any such margin above costs does not represent a use of the federal entity's resources. Where the cost of fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the federal entity's resources.

Entity-Specific Value

8. The cost of fulfillment is an entity-specific value. A federal entity shall measure the cost of fulfillment of a liability using the assumptions from the federal entity's perspective, assuming the federal entity acts in accordance with its objectives.
9. In developing those federal entity-specific assumptions, a federal entity shall identify characteristics specific to the federal entity and the liability, considering factors specific to all the following:
 - A. The liability;
 - B. The federal entity's expectations about the amount and timing of future outflows of resources; and
 - C. The time value of money.
10. When estimating assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those a federal entity uses itself.

The Cost that the Entity Will Incur

11. The cost of fulfillment estimates the cost assuming the federal entity settles the liability.
12. A cost of fulfillment measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the federal entity expects to incur to satisfy the liability. Those future outflows of resources include the amounts:
 - A. To be transferred to the liability counterparty; and
 - B. The federal entity expects to be obliged to transfer to other parties to settle the liability.
13. The price used to measure the cost of fulfilling the liability shall not be adjusted for transaction costs incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the federal entity expects to incur. In contrast, transaction costs that are expected to be incurred in settling the liability, i.e., exit-based, are a future outflow of resources that is relevant in measuring the cost to fulfill the liability and are included in measuring the cost of fulfillment.

14. Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.
15. Where fulfillment of the liability will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date using the income approach. As a practical expedient, a federal entity need not discount the value of the future outflow of resources if the entity expects the liability to be settled within one year.

Settling the Liability

16. The cost of fulfillment is the cost that the federal entity expects to incur to settle its liability in the normal course of operations.
17. In estimating the cost to settle its liability in the normal course of operations, the federal entity assumes the liability will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.
18. In estimating the cost of fulfillment, the federal entity takes into account all readily available information at the measurement date under current market conditions in estimating the obligation to settle the liability at the expected fulfillment date.
19. The cost of fulfillment shall not include the non-performance risk of the federal entity to settle its liability. A cost of fulfillment measurement is a measure of the value of a liability assuming the federal entity will fulfill its obligations. As non-performance risk takes into account the effect on the value of a liability of the federal entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of fulfillment measurement assumes the liability will be fulfilled in the normal course of operations.

Measurement Technique

20. The cost of fulfillment cannot be observed directly in an active market. It is determined using the income approach measurement technique.
21. A federal entity shall use the income approach. The cost of fulfillment reflects federal entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those a federal entity uses itself.
22. The objective of using the income approach is to estimate the cost that the federal entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions. The main aspects of that approach as it relates to the cost of fulfillment are summarized in paragraphs below.

Income Approach

23. Applying the income approach to estimate the cost of fulfillment shall take into account the attributes of the cost of fulfillment measurement basis. This includes:
 - A. Estimates of future cash flows.

- B. Possible variations in the estimated amount or timing of future cash flows for liability being measured, caused by the uncertainty inherent in the cash flows.
 - C. The time value of money.
 - D. Other factors that impact the value of the liability.
24. Paragraphs 25 describe the use of present value techniques to measure the cost of fulfillment. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the cost of fulfillment to the techniques discussed. The present value technique used to measure the cost of fulfillment will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.

Future Outflows of Resources

25. The estimates of outflows of resources used to measure the cost of fulfillment shall include all inflows of resources and outflows of resources that relate directly to the fulfillment of the liability. Those estimates shall:
- A. Be explicit (i.e., the federal entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources);
 - B. Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs 30-34).
 - C. Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the federal entity fulfills the liability (see paragraph 35); and
 - D. Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs 36-40).

Uncertainty and the Expected Value Approach

26. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources are not conditional upon the occurrence of any specified event (unlike the outflows of resources used in the discount rate adjustment technique).
27. In determining the expected outflows of resources, a federal entity must:
- A. Identify each possible outcome.

- B. Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome; and
 - C. Make an unbiased estimate of the probability of each outcome.
28. The previous paragraph requires the estimate of expected values to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.
29. In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph 2 assumes that the liability is settled by the federal entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.

Market Variables and Non-Market Variables

30. This Appendix identifies two types of variables:
- A. Market variables-variables that can be observed in, or derived directly from, markets (e.g., interest rates); and
 - B. Non-market variables-all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).

Market Variables

31. Estimates of market variables shall be consistent with observable market prices at the measurement date. A federal entity shall not substitute its own estimates for observed market prices except as described in fair value appendix. In accordance with fair value appendix, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.

Non-Market Variables

32. Estimates of non-market variables shall reflect all of the available evidence, both external and internal.
33. Non-market external data may have more or less relevance than internal data, depending on the circumstances.
34. Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.

Estimating Probabilities of Future Payments

35. A federal entity estimates the probabilities associated with future payments on the basis of:
- A. Information about the known or estimated characteristics of the liability; and

- B. Historical data about the federal entity's own experience, supplemented, when necessary, with historical data from other sources. Historical data is adjusted if, for example:
- ✓ The characteristics of the liability differ from those of the population that has been used as a basis for the historical data.
 - ✓ There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or
 - ✓ There have been changes in the federal entity's practices or procedures that may affect the relevance of historical data to the liability.

Under Current Estimates

36. In estimating the probability of each outflow of resources scenario, a federal entity shall use all of the available current information at the measurement date. A federal entity shall review the estimates of the probabilities that it made at the end of the previous measurement date and update them for any changes. In doing so, a federal entity shall consider whether:

- A. The updated estimates faithfully represent the conditions at the end of the measurement date; and
- B. The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If a federal entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the federal entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.

37. The probability assigned to each scenario shall reflect the conditions at the measurement date. Consequently, in accordance with FGAAS 14, Events After the Reporting Date, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommission. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with FGAAS 14., that a non-adjusting event occurred after the end of the reporting period).

Future Events

38. Estimates of non-market variables shall consider not just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods thereby decreasing decommissioning costs. The determination of the outflow of resources reflects the probabilities that would be assigned to each possible trend scenario in the light of all the available evidence.
39. Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.
40. When estimating the outflow of resources associated with fulfilling the liability, a federal entity shall take into account future events that might affect the outflow of resources. The federal entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, a federal entity shall not take into account future events, such as a change in legislation, which would change or discharge the present obligation or create new obligations under the existing liability.

Time Value of Money

41. Federal entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.
42. A federal entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall:
- A. Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity.
 - B. Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.
43. When using a risk-free rate, the logical sources of reference rates are high quality bonds. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.
44. Although rates on high quality government bonds will not need to be adjusted for default risk in determining the risk-free discount rate, they may need to be adjusted for liquidity risk.

Inputs to the Income Approach

General Principles

45. The income approach used in a cost of fulfillment measurement reflects entity-specific assumptions rather than assumptions used by market participants.
46. The cost of fulfillment measurement is an entity-specific valuation. When an income approach is applied, a federal entity shall select inputs that are consistent with the characteristics of the liability. The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the federal entity, from the federal entity's perspective. For example, when measuring the cost to fulfill a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the federal entity.
47. In some cases, the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However, a cost of fulfillment measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the FGAAS that requires or permits the cost of fulfillment measurement.
48. When a liability will be settled at a future date, the assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on fulfillment and the associated discount rate are both based on information available at the measurement date.



Standard 47 - Revenue

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to Revenue of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version			

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to Revenue in addition to detailing the manner in which all such Revenue are to be recognised, measured, presented and disclosed in financial statements. This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Definitions



The following terms are used in this Standard with the meanings specified:

Term	Definition
A binding arrangement	Is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.
A binding arrangement asset	Is a federal entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the federal entity's future performance).
A binding arrangement liability	Is a federal entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the federal entity has received consideration (or the amount is due) from the resource provider.
A capital transfer	Is an inflow of cash or another asset that arises from a binding arrangement with a specification that the federal entity acquires or constructs a non-financial asset that will be controlled by the federal entity. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the federal entity acquires or constructs a non-financial asset that will be controlled by the federal entity. A capital transfer imposes at least one compliance obligation on the federal entity.
A compliance obligation	E. Is a federal entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.
A customer	Is a party that has contracted with a federal entity to obtain goods or services that are an output of the federal entity's activities in exchange for consideration.
Fines	Are economic benefits or service potential received or receivable by the federal entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.
Other compulsory contributions and levies	Is cash or another asset, paid or payable to the federal entity, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.

Term	Definition
A purchaser	Is a resource provider that provides a resource to the federal entity in exchange for goods or services that are an output of a federal entity's activities under a binding arrangement for its own consumption.
A resource provider	Is the party that provides a resource to the federal entity.
The stand-alone value (of a good or service)	Is the price of a good or service that is required to be used internally or provided separately to a purchaser or third-party beneficiary.
The taxable event	Is the event that the federal government, legislature, or other authority has determined will be subject to taxation.
Taxes	Are economic benefits or service potential compulsorily paid or payable to the federal entity, in accordance with laws and/or regulations, established to provide revenue to the federal government. Taxes do not include fines or other penalties imposed for breaches of laws and/or regulations.
A third-party beneficiary	Is a federal entity, household or individual who will benefit from a transaction made between other parties by receiving resources.
The transaction consideration	Is the number of resources to which a federal entity expects to be entitled.
A transfer	Is a transaction, other than taxes, in which a federal entity receives a resource from a resource provider (which may be another federal entity or an individual) without directly providing any good, service, or other asset in return.



Standard 47 - Revenue

Standard 47 - Revenue

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 47 (IPSAS 47). It is worth mentioning that certain text of standard 47 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to establish the principles that a federal entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions.
2. To meet the objective in the above paragraph, this Standard:
 - A. Requires a federal entity to consider the terms of the transaction, and all relevant facts and circumstances, to determine the type of revenue transaction; and
 - B. Sets out the accounting requirements to account for the revenue transaction.

Scope



3. A federal entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for its revenue transactions. This Standard does not apply to:
 - A. A public sector combination within the scope of FGAAS 40, Public Sector Combinations.
 - B. The accounting for contributions from owners.
 - C. Lease contracts within the scope of FGAAS 43, Leases.
 - D. Financial instruments and other contractual rights or obligations within the scope of FGAAS 41, Financial Instruments.
 - E. Rights or obligations arising from binding arrangements within the scope of FGAAS 19, Provisions, Contingent Liabilities and Contingent Assets, FGAAS 32, Service Concession Arrangements: Grantor, FGAAS 34, Separate Financial Statements, FGAAS 35, Consolidated Financial Statements, FGAAS 36, Investments in Associates and Joint Ventures, FGAAS 37, Joint Arrangements, FGAAS 39, Employee Benefits, and FGAAS 40;
 - F. Non-monetary exchanges between entities in the same line of business to facilitate sales to resource providers or potential resource providers. For example, this Standard would not apply to a binding arrangement between two federal entities that agree to an exchange of electricity to satisfy demand from their resource providers in different specified locations on a timely basis.
 - G. Gains from the sale of non-financial assets that are not an output of a federal entity's activities and are within the scope of FGAAS 16, Investment Property, FGAAS 45, Property, Plant, and Equipment, or FGAAS 31, Intangible Assets.
 - H. Changes in the value of current and non-current assets arising from subsequent measurement.
 - I. Initial recognition or changes in the fair value of biological assets related to agricultural activity (see FGAAS 27, Agriculture); and

4. The scope of this Standard is focused on establishing principles and requirements when accounting for revenue transactions. Revenue may arise from transactions without binding arrangements or with binding arrangements.
5. This Standard specifies the accounting for the incremental costs of obtaining a binding arrangement and for the costs incurred to satisfy a binding arrangement if those costs are not within the scope of another Standard. A federal entity shall apply those paragraphs only to the costs incurred that relate to a binding arrangement (or part of that binding arrangement) that is within the scope of this Standard.

Revenue



6. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the federal entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties are not considered revenue of the agent, as these amounts will not give rise to an increase in net assets/equity of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.
7. Where a federal entity incurs some cost in relation to revenue arising from a revenue transaction, the revenue is the gross inflow of future economic benefits or service potential, and any transfer of resources is recognized as a cost of the transaction. For example, if a federal entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another federal entity (resource provider), those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are recognized in accordance with FGAAS 45.

Taxes



8. Taxes, which include compulsory contributions and levies, are a major source of revenue for the federal government entities. Taxes are defined in the table of definitions as economic benefits or service potential compulsorily paid or payable to the government entities, in accordance with laws and/or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws and/or regulations. Non-compulsory transfers to the government, such as donations and the payment of fees, are not taxes, although they may be the result of transactions without a binding arrangement. A government levies taxation on individuals and other entities, known as taxpayers, by use of its sovereign powers.
9. The rights (of a government to calculate the tax receivable and ensure payment is received) and obligations (on the taxpayer to submit returns and monies when due) established in tax laws and/or regulations do not create binding arrangements between the government and the taxpayer.

Identify the Revenue Transaction



10. Federal government revenues may arise from transactions without binding arrangements or with binding arrangements. The majority of revenue of federal governments is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.
11. At inception, a federal entity should first consider whether it has entered into a revenue transaction with or without a binding arrangement.

Identify whether a Binding Arrangement Exists



12. For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the federal entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of their obligations.
13. 13. In determining whether an arrangement is enforceable, the federal entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on a federal entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.
14. A binding arrangement includes both rights and obligations that are enforceable for two or more of the parties in the arrangement. Each party's enforceable rights and obligations within the binding arrangement are interdependent and inseparable.
15. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by a federal entity's customary practices. The practices and processes for establishing binding arrangements vary across the federal entities. In addition, they may vary within a federal entity (for example, they may depend on the class of the resource provider or the nature of the federal entity's promise in the binding arrangement).
16. A federal entity will apply the recognition and measurement criteria in this Standard as follows:
 - A. Revenue from transactions without binding arrangements are accounted for by applying paragraphs 31-67, with guidance specific to taxes in paragraphs 49-67; and
 - B. Revenue from transactions with binding arrangements are accounted for by applying paragraphs 68-188.



Example 47.1 - Transaction Arose from an Arrangement that is Not Binding

Case (A) - No Obligations, No Specified Time Period, and No Reporting to the Dubai government:

A social development federal entity (the federal entity) receives funding of AED 5 million from a government body (Dubai government) to fund its employment programs. The agreement requires funding to be spent on programs with the goal of improving employment in the region. If the federal entity incurs expenditures to improve employment in the region, it is able to enforce its right to receive funding from Dubai government. The agreement does not specify the time period in which the funds are to be spent, any requirement to fund specific employment programs, nor how Dubai government will receive or verify information on how the funds were spent.

The Federal entity concludes that the funding agreement is not a binding arrangement in accordance with FGAAS 47:

- ✓ Although the federal entity has an enforceable right to resources from Dubai government if it incurs eligible expenditures, it does not have an enforceable obligation because Dubai government does not have the ability to enforce how the federal entity uses funds in a specific way (e.g., specific programs) or within a specific time period.
- ✓ Dubai government also has no realistic way to enforce the requirement to spend all of the funds.
- ✓ As a result, the federal entity shall apply the accounting principles in paragraphs related to the section **“revenue from a transaction without a binding arrangement”** to account for this revenue.

Case (B) - Specified Time Period to Spend Funds:

The same facts as in Case A apply to Case B, except the agreement specifies that the funds are to be spent within a five-year period.

In this scenario, the requirement to spend the AED 5 million within five years does not change the federal entity conclusion that it has an enforceable right in the funding agreement but does not have an enforceable obligation.

- ✓ This is because Dubai government is not able to confirm if and when the federal entity spends the funds as stated in the agreement.
- ✓ As a result, this arrangement is not binding, and the federal entity shall apply the accounting principles in paragraphs related to the section “revenue from a transaction without a binding arrangement” to account for this revenue.

Case (C) - Specified Time Period to Spend Funds and Specific Reporting to the Dubai government is Required:

The same facts as in Case B apply to Case C, except the agreement also specifies how the federal entity is to report its spending to the Dubai government, and that any misused or unused funds are to be returned to the Dubai government. The federal entity continues to have full discretion over how to use the funds, as long as the funds are spent within five years on activities that reasonably relate to improving employment in the region.

The federal entity concludes that it has both an enforceable right and an enforceable obligation.



Example 47.1 - Transaction Arose from an Arrangement that is Not Binding

- ✓ This is because Dubai government is able to confirm and enforce its requirement for the federal entity to spend the funds on improving employment in the region within the five-year period.
- ✓ The federal entity shall apply the accounting principles in paragraphs related to the section **“revenue from a transaction with a binding arrangement”** to account for this revenue.

Binding Arrangement

17. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement. Each party in the binding arrangement willingly entered into the arrangement and is able to enforce their respective rights and obligations conferred on them in the arrangement.
18. This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, a federal entity may apply this Standard to a portfolio of binding arrangements (or compliance obligations) with similar characteristics if the federal entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio. When accounting for a portfolio, a federal entity shall use estimates and assumptions that reflect the size and composition of the portfolio.
19. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties.

Enforceability

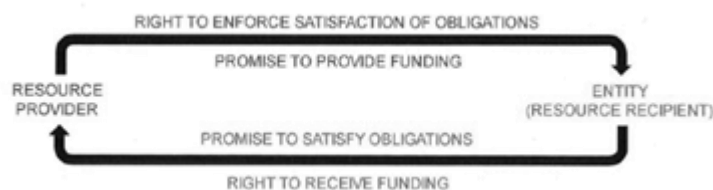
20. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. The federal entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
21. In the federal government, an arrangement is enforceable when each of the parties in the arrangement is able to enforce their respective rights and obligations. An arrangement is enforceable if the agreement includes:
 - A. Clearly specified rights and obligations for each involved party; and
 - B. Remedies for non-completion by each involved party which can be enforced through the identified enforcement mechanisms.
22. When a federal entity assesses enforceability, the federal entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party

or parties that do not satisfy their obligation(s) in the arrangement, through legal or equivalent means. If the federal entity is not able to determine how the mechanisms of enforceability identified would in substance enable the federal entity to hold the other parties in the arrangement accountable for satisfying their obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.

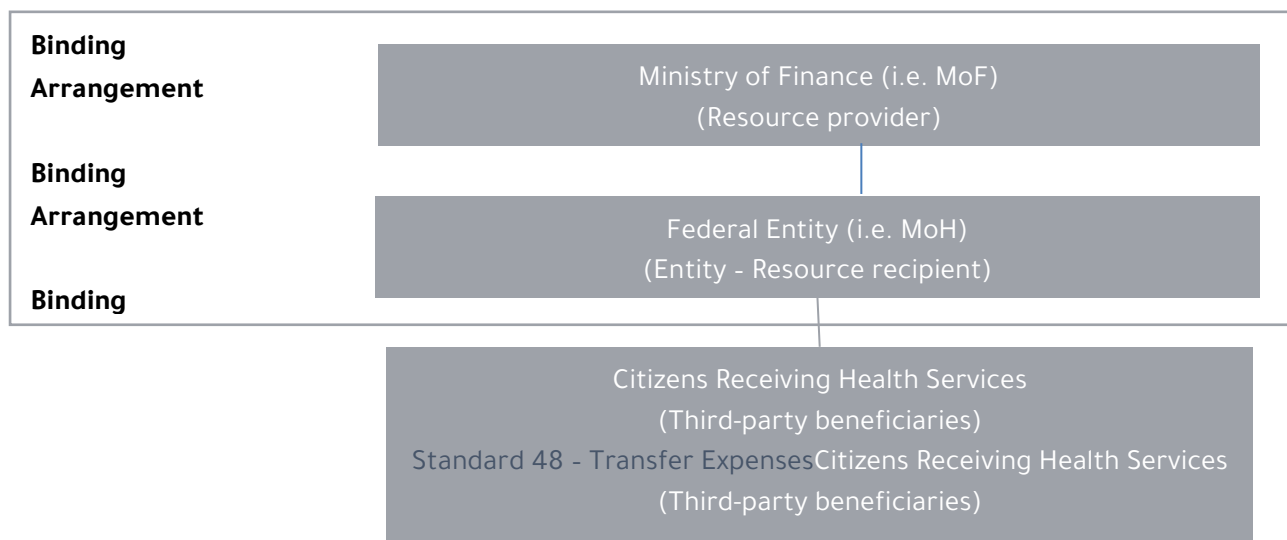
23. A statement of intent or public announcement by a resource provider (e.g., government) to spend money or deliver goods and/or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a resource provider and a federal entity (resource recipient).

Parties in a Binding Arrangement

24. Arrangements in federal government often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.
25. For federal government-specific transactions with binding arrangements, the resource provider is the party that provides consideration to the federal entity for goods or services set out in a binding arrangement but is not necessarily the party that receives those goods or services. The resource provider may provide consideration for the federal entity to:
- A. Use resources internally for goods or services. In these cases, the resource provider does not directly receive any goods, services, or other assets in return.
 - B. Transfer distinct goods or services to the resource provider. In these cases, the resource provider is a purchaser, as it receives goods or services that are an output of a federal entity's activities under a binding arrangement for its own consumption; or
 - C. Transfer distinct goods or services to a third-party beneficiary. In multi-party arrangements (discussed below), the resource provider has a binding arrangement with and provides consideration to the federal entity to deliver goods or services to a third-party beneficiary. For example, if the Ministry of Finance provides funding to a Ministry of health to conduct medical test for people over the age of 55, the Ministry of Finance is the resource provider and the specific persons are the third-party beneficiaries. The resource provider can enforce delivery of those goods or services or seek recourse from the Ministry of health if the promises in the binding arrangement are not satisfied.
26. That is, at a minimum, the federal entity receiving the consideration (resource recipient) must be able to enforce the promise to receive funding (consideration), and the federal entity providing the funding (the resource provider) must be able to enforce satisfaction of the obligations assumed by the federal entity receiving the consideration. The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



27. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the federal entity to deliver goods or services. However, for these multi-party arrangements to be within the scope of this Standard the resource provider must have the ability to force the federal entity to deliver distinct goods or services to the third-party beneficiaries. In these multi-party arrangements, the federal entity (resource recipient) is not an agent of the resource provider because the federal entity gains control of the consideration from the resource provider and is responsible for providing goods or services to the third-party beneficiaries. This relationship is illustrated in the following diagram:



28. In assessing enforceability of an arrangement, the federal entity considers not only its ability to enforce its right to receive funds related to the completed obligation(s), but also the resource provider's ability to compel the federal entity to satisfy its obligations.
29. Some revenue transactions may be enforceable, but only create enforceable rights and obligations for one party in the arrangement. These transactions do not meet the definition of a binding arrangement for the purposes of this Standard because of the lack of two-way enforceability.

Revenue from Transactions without Binding Arrangements

Recognition



30. A federal entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any federal entity shall determine if:
- A. Any of its rights in its revenue transaction without binding arrangements meet the definition of an asset in accordance with paragraphs 31-38; and
 - B. Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 39-40.

Analysis of the Initial Inflow of Resources



31. A federal entity may receive an initial inflow of resources from a revenue transaction without a binding arrangement. The federal entity recognizes this inflow of resources as an asset if it presently controls the resources (such as goods, services, or other assets) received as a result of past events, and the value of the asset can be measured reliably. Control of the resource entails the ability of the federal entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in achieving its service delivery or other objectives. A past event that gives the federal entity control of a resource may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets - for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.
32. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes a federal entity's assets from those public goods that all entities have access to and benefit from. A federal entity may, but is not required to, recognize services in-kind as revenue and as an asset.
33. Each type of inflow of resources is analyzed and accounted for separately. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources. In some cases, gaining control of the inflow of resources may also carry with it obligations that the federal entity may recognize as a liability until the obligations are satisfied.

Right to an Inflow of Resources



34. When a federal entity has not received an inflow of resources for a revenue transaction without a binding arrangement, it should consider whether it has a right to receive an inflow of goods, services, or other assets which may be a resource that meets the definition of an asset and is to be recognized as an asset. The federal entity bases this determination on the facts and circumstances of its revenue transaction, its ability to enforce this right through legal or equivalent means, its past experience with similar types of flows of resources, and its expectations regarding the resource provider's ability and intention to provide the resources.
35. An announcement of an intention to transfer resources to a federal entity is not of itself sufficient to identify resources as controlled by a federal entity.

36. In circumstances where an agreement is required before resources can be transferred, a federal entity will not identify the resources as controlled until such time as the federal entity's right in the agreement is enforceable, because the federal entity cannot exclude or regulate the access of the resource provider to the resources. In many instances, the federal entity will need to establish enforceability of its control of resources before it can recognize an asset. If a federal entity does not have an enforceable claim to resources, it cannot exclude or regulate the resource provider's access to those resources.

Contingent Assets



37. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see FGAAS 19).

Subsequent Consideration of Asset Recognition Criteria



38. A federal entity shall continue to assess the revenue transaction, and any inflow of resources received or to be received, to determine whether the criteria for asset recognition in paragraph 34 are subsequently met.

Existence and Recognition of a Liability



39. A federal entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the federal entity to transfer resources as a result of past events.
40. For a liability to exist, it is necessary that the federal entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. A federal entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the federal entity does not satisfy its obligation(s).
41. An obligation that meets the definition of a liability shall be recognized as a liability when, and only when, the amount of the obligation can be measured reliably.



Recognition of Revenue Transactions without Binding Arrangements

42. When a federal entity recognizes an inflow or right to an inflow of resources as an asset for a revenue transaction without a binding arrangement in accordance with paragraphs 31-38, it recognizes revenue based on the nature of the requirements in its revenue transaction. A federal entity shall recognize revenue from a transaction without a binding arrangement:
- A. When (or as) the federal entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or
 - B. Immediately if the federal entity does not have an enforceable obligation associated with the inflow of resources.

Measurement

Measurement of Assets from an Inflow of Resources



43. An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the federal entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. To determine the transaction consideration for non-cash consideration, a federal entity shall measure the non-cash consideration (or right to a non-- cash inflow) at its current value, in accordance with the relevant FGAAS.
44. After initial recognition, a federal entity shall subsequently measure:
- A. A receivable asset:
 - ✓ Within the scope of FGAAS 41 as a financial asset in accordance with FGAAS 41; or
 - ✓ Not within the scope of FGAAS 41 on the same basis as a financial asset in accordance with FGAAS 41, by analogy.
 - B. All other assets as prescribed by the applicable FGAAS.

Measurement of Liabilities



45. The amount recognized as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized.
46. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability shall be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in FGAAS 19.

Measurement of Revenue Transactions without Binding Arrangements



47. Revenue from transactions without a binding arrangement shall be measured at the amount of the increase in net assets (e.g., the consideration received or receivable) recognized by the federal entity.
48. When, as a result of a revenue transaction without a binding arrangement, a federal entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 43, subject to any liability recognized in accordance with paragraphs 39-41.

Taxes



49. A federal entity shall recognize an asset in respect of taxes, which include other compulsory contributions and levies, when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met.
50. Tax laws and/or regulations have a number of common characteristics. Tax laws and/or regulations (a) establish a government's right to collect the tax, (b) identify the basis on

which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received.

51. Tax laws and/or regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws and/or regulations are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.
52. Resources arising from taxes satisfy the definition of an asset when the federal entity controls the resources as a result of past events (taxable events) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when they are presently controlled by the federal entity as a result of past events and their value can be measured reliably. The federal entity should consider evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
53. Taxation revenue arises only for the government that imposes the tax, and not for other federal entities. For example, where the federal government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the federal government, not the taxation authority.
54. Where a single federal entity collects taxes on behalf of several other federal entities, it is acting as an agent for all of them. For example, where a taxation agency collects income taxes for the Federal government and several federal entities, it does not recognize revenue in respect of the taxes collected - rather, the individual federal government entities that impose the taxes recognize assets and revenue in respect of the taxes.
55. Taxes do not satisfy the definition of contributions from owners.
56. Taxes are a transaction without a binding arrangement because the taxpayer transfers resources to the federal government, and the federal government is not required to transfer distinct goods or services to the taxpayer or a third-party beneficiary in return. While the taxpayer may benefit from a range of social policies established by the federal government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes.

Triggering Event for Taxes and Other Compulsory Contributions and Levies



57. The federal entity analyzes the taxation law to determine what the taxable event is for the various taxes levied.
58. The federal entity analyzes the law and/or regulation relating to other compulsory contributions and levies to determine what event the federal government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

- A. Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income).
- B. The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and
- C. The purchase of goods or services (where levies are based on a percentage of sales).

Advance Receipts of Taxes and Other Compulsory Contributions and Levies



59. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes. Consistent with the definitions of assets, liabilities, and the requirements of paragraph 49, resources for taxes and other compulsory contributions and levies received prior to the occurrence of the triggering event for other compulsory contributions and levies are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the federal entity's entitlement to the taxes or other compulsory contributions and levies has not occurred, and (b) the criteria for recognition of taxation revenue or revenue from other compulsory contributions and levies have not been satisfied, notwithstanding that the entity has already received an inflow of resources.
60. Advance receipts in respect of taxes and other compulsory contributions and levies are not fundamentally different from other advance receipts, so a liability is recognized until the triggering event for other compulsory contributions and levies occurs. When the triggering event for other compulsory contributions and levies occurs, the liability is discharged, and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions



61. Assets arising from taxation transactions are measured in accordance with paragraph 43. A federal entity shall consider the terms of the transaction and its customary practices to determine the transaction consideration. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the federal entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts).
62. Where there is a separation between the timing of the taxable event and the collection of taxes, federal entities may measure assets arising from these transactions by using, for example, statistical models based on the history of collecting the particular tax, contribution or levy in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation, contribution or levy receivable to other events in the economy. Measurement models will also take account of other factors such as:
- A. The tax law and/or regulation allowing taxpayers a longer period to file returns than the federal government is permitted for publishing general purpose financial statements.
 - B. Taxpayers failing to file returns on a timely basis.

- C. Valuing non-monetary assets for tax assessment purposes.
 - D. Complexities in tax law and/or regulation requiring extended periods for assessing taxes due from certain taxpayers.
 - E. The tax law and/or regulation permitting taxpayers to defer payment of some taxes; and
 - F. A variety of circumstances particular to taxes.
63. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with FGAAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Measurement of Taxes with Collection Uncertainty



64. The measurement of assets arising from taxation transactions is limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
65. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, a federal entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:
- A. The amount of consideration is highly susceptible to factors outside the federal entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties.
 - B. The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.
 - C. The federal entity's experience (or other evidence) with similar types of arrangements is limited, or that experience (or other evidence) has limited predictive value.
 - D. The federal entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar arrangements in similar circumstances.
 - E. The transaction has a large number and broad range of possible consideration amounts.

Expenses Paid Through the Tax System and Tax Expenditures



66. Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system. Taxation revenue shall not be grossed up for the amount of tax expenditures.

67. FGAAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Revenue from Transactions with Binding Arrangements

Recognition

Accounting for the Binding Arrangement



68. A federal entity shall account for a binding arrangement using the binding arrangement accounting model if all of the following criteria are met:

- A. The parties to the binding arrangement have approved the binding arrangement (in writing, orally or in accordance with other customary practices) and are committed to perform their respective obligations.
- B. The federal entity can identify each party's rights under the binding arrangement.
- C. The federal entity can identify the payment terms for the satisfaction of each identified compliance obligation.
- D. The binding arrangement has economic substance (i.e., the risk, timing or amount of the federal entity's future cash flows or service potential is expected to change as a result of the binding arrangement); and
- E. It is probable that the federal entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement. In evaluating whether collectability of an amount of consideration is probable, a federal entity shall consider only the resource provider's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the federal entity will be entitled may be less than the transaction consideration stated in the binding arrangement if the consideration is variable because the entity may offer the resource provider a price concession (see paragraph 145).

69. If a binding arrangement meets the criteria in the above paragraph at the inception of the binding arrangement, a federal entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a resource provider's ability to pay the consideration deteriorates significantly, a federal entity would reassess whether it is probable that the federal entity will collect the consideration to which the federal entity will be entitled for the satisfaction of any remaining compliance obligations in the binding arrangement.

70. When a binding arrangement does not meet all of the criteria in the above paragraph, the federal entity shall recognize any consideration received as revenue only when either of the following events has occurred:
- A. The federal entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or
 - B. The binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.
- A federal entity shall continue to assess the binding arrangement to determine whether the criteria in the above paragraph are subsequently met.
71. For the purpose of applying this Standard, an arrangement is not a binding arrangement if each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties).
72. A binding arrangement is wholly unsatisfied if both of the following criteria are met:
- A. The federal entity has not yet started satisfying any of its compliance obligations in the binding arrangement; and
 - B. The resource provider has not yet paid, and is not yet obligated to pay, any consideration to the federal entity for the federal entity satisfying any of its compliance obligations in the binding arrangement.
73. If a federal entity has determined that its revenue arises from a transaction with a binding arrangement that is to be accounted for using the binding arrangement accounting model, the federal entity shall also consider whether it should be combined with other binding arrangements, and whether there are any modifications to its binding arrangement.



Example 47.2 - Collectability of the Consideration

A federal entity has a portfolio of properties that are rented at below-market prices to qualifying habitant. After a number of years, and habitant is able to purchase the unit as part of a rent-to-own housing program. The price of the unit will be based on the then current market value less the accumulated rent paid to date by the habitant. The program allows the habitants to pay the price over a period of 20 years, but the payments may cease once habitants have reached the retirement age, and the future payments will depend on the habitant's level of income at that time. At the inception of the binding arrangement to purchase the unit, an habitant is required to pay a non-refundable deposit of AED 5,000 and enter into a long-term financing agreement with the federal entity for the remaining balance of the promised consideration.

- As part of this rent-to-own program, the federal entity enters into a binding arrangement with a habitant for the sale of a residential unit with a market price of AED 400,000. Up to the time of the purchase, the habitant had cumulatively paid AED 150,000 in rent to the federal entity, so the purchase price for the unit was AED 250,000.

Example 47.2 - Collectability of the Consideration

3. The habitant pays the non-refundable deposit of AED 5,000 at the inception of the binding arrangement and enters into a long-term financing agreement with the federal entity for the remaining AED 245,000 of the promised consideration.
4. However, the habitant is only expected to pay AED 180,000 (including the AED 5,000 deposit) until they reach the retirement age, and at that time, their expected level of income will result in payments ceasing.
5. The habitant obtains control of the unit at the inception of the binding arrangement and payment of the AED 5,000 deposit.

Are the BA model criteria met in this example?

An entity's binding arrangement must meet specific criteria to apply the binding arrangement accounting model:

- In assessing whether the binding arrangement meets the criteria **"for using the BA Accounting model"**, the federal entity concludes that the **"Collectability criterion" is not met for the full AED 250,000 because it is not probable that it will collect the consideration to which it is entitled in exchange for the transfer of the building.** In reaching this conclusion, the federal entity observes that the habitant may only pay up to AED 180,000 based on the terms of the program.
- 6. Because the criteria "for using the BA Accounting model" are not all met, the federal entity applies paragraphs 94 and 159-164 of FGAAS 47 to determine the accounting for the non-refundable deposit of AED 5,000.
- 7. The federal entity observes that the events described in paragraph 94 (A) have occurred—that is, the federal entity has transferred control of the building to the habitant, and the federal entity has no obligation to transfer additional goods or services for the AED 5,000 payment received, and the payment is non-refundable.
- 8. Consequently, in accordance with paragraph 94, the federal entity recognizes the non-refundable AED 5,000 payment as revenue upon receipt.

Combination of Binding Arrangements



74. A federal entity shall combine two or more binding arrangements entered into at or near the same time with the same resource provider (or related parties of the resource provider) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

- A. The binding arrangements are negotiated as a package with a single objective.
- B. The amount of consideration to be paid in one binding arrangement depends on the consideration or performance of the other binding arrangement: or
- C. The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation in accordance with paragraphs 83-95.

Modifications to a Binding Arrangement



75. A modification to a binding arrangement is a change in the scope or consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement. In some sectors, a modification to a binding arrangement may be described as a variation, an amendment, or a change order.
76. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement.
77. A modification to a binding arrangement could be approved in writing, by oral agreement or implied by a federal entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, a federal entity shall continue to apply this Standard to the existing binding arrangement until the modification to a binding arrangement is approved.
78. A modification to a binding arrangement may exist even though the parties to the binding arrangement have a dispute about the scope or consideration (or both) of the modification or the parties have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration.
79. In determining whether the rights and obligations that are created or changed by a modification are enforceable, a federal entity shall consider all relevant facts and circumstances including the terms of the binding arrangement and other evidence. If the parties to a binding arrangement have approved a change in the scope of the binding arrangement but have not yet determined the corresponding change in consideration, a federal entity shall estimate the change to the transaction consideration arising from the modification in accordance with paragraphs 143-147 on estimating variable consideration and paragraphs 153-154 on constraining estimates of variable consideration.
80. A federal entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions are present:
- A. The scope of the binding arrangement increases because of the addition of promises that are distinct (in accordance with paragraphs 91-95); and
 - B. The consideration of the binding arrangement increases by an amount of consideration that reflects the federal entity's stand-alone values of the additional promises and any appropriate adjustments to that value to reflect the circumstances of the particular binding arrangement. For example, a federal entity may adjust the stand-alone value of an additional good or service for a discount that the resource provider receives, because it is not necessary for the federal entity to incur the related costs that it would incur when providing a similar good or service to a new resource provider.
81. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with the previous paragraph, a federal entity shall account for the promises not yet transferred at the date of the modification to a binding arrangement (i.e., the remaining promises) in whichever of the following ways is applicable:

- A. A federal entity shall account for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining promises are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation identified in accordance with paragraph 83 (B)) is the sum of:
 - ✓ The consideration promised by the resource provider (including amounts already received from the resource provider) that was included in the estimate of the transaction consideration and that had not been recognized as revenue; and
 - ✓ The consideration promised as part of the modification to a binding arrangement.
- B. A federal entity shall account for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single compliance obligation that is partially satisfied at the date of the modification to a binding arrangement.
- C. The effect that the modification to a binding arrangement has on the transaction consideration, and on the federal entity's measure of progress towards complete satisfaction of the compliance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement (i.e., the adjustment to revenue is made on a cumulative catch-up basis).
- D. If the remaining promises are a combination of items (a), (b), and (c), then the federal entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) compliance obligations in the modified binding arrangement in a manner that is consistent with the objectives of this paragraph.



Example 47.3 - Modification of a Binding Arrangement for Goods

A federal entity promises to provide 1.2 million textbooks to a university for AED 12 million (AED 10 per textbook). The textbooks are transferred to the university over a six-month period. The AED 12 million is funded by the federal entity's donors. The Federal entity transfers control of each textbook at a point in time. After the federal entity has transferred control of 600,000 textbooks to the university, the binding arrangement is modified to require the delivery of an additional 300,000 textbooks (a total of 1.5 million identical textbooks) to the university. The additional 300,000 textbooks were not included in the initial binding arrangement.

- Case (A) - Additional Products for a Price that Reflects the Stand-Alone Value:
In this scenario, When the binding arrangement is modified, the price of the modification to a binding arrangement for the additional 300,000 textbooks is an additional AED 2.85 million or AED 9.5 per textbook. The pricing for the additional textbooks reflects the stand-alone value of the textbooks at the time of the

Example 47.3 - Modification of a Binding Arrangement for Goods

modification to the binding arrangement and the additional textbooks are distinct from the original textbooks.

- The modification to a binding arrangement for the additional 300,000 textbooks is, in effect, a new and separate binding arrangement for future textbooks that does not affect the accounting for the existing binding arrangement:
- The federal entity recognizes revenue of AED 10 per textbook for the 1.2 million textbooks in the original binding arrangement and AED 9.5 per textbook for the 300,000 textbooks in the new binding arrangement.
- Case (B) - Additional Products for a Price that Does not Reflect the Stand-Alone Value: *In this scenario*, During the process of negotiating the purchase of an additional 300,000 textbooks, the parties initially agree on a price of AED 8.0 per textbook. However, the university and the donors discover that the initial 600,000 textbooks provided by the federal entity contained minor misprints. The federal entity promises a partial credit of AED 1.5 per textbook to compensate the donors for the poor quality of those textbooks. The university and the donors agree to incorporate the credit of AED 900,000 (AED 1.5 credit × 600,000 textbooks) into the amount that the federal entity will require for the additional 300,000 textbooks. Consequently, the modification to the binding arrangement specifies that the price of the additional 300,000 textbooks is AED 1.5 million or AED 5.0 per product. That price comprises the agreed-upon price for the additional 300,000 textbooks of AED 2.4 million, or AED 8.0 per textbook, less the credit of AED 900,000.
 - At the time of modification, the federal entity recognizes the AED 900,000 as a reduction of the transaction consideration and, therefore, as a reduction of revenue for the initial 600,000 textbooks transferred.
 - In accounting for the sale of the additional 300,000 textbooks, the federal entity determines that the negotiated price of AED 8.0 per product does not reflect the stand-alone value of the additional textbooks.
 - Consequently, the modification to a binding arrangement does not meet the conditions to be accounted for as a separate binding arrangement.
 - Because the remaining textbooks to be delivered are distinct from those already transferred, the federal entity accounts for the modification as a termination of the original binding arrangement and the creation of a new binding arrangement.
 - Consequently, the amount recognized as revenue for each of the remaining textbooks is a blended price of AED 9.33 $\{[(\text{AED } 10 \times 600,000 \text{ textbooks not yet transferred under the original binding arrangement}) + (\text{AED } 8.0 \times 300,000 \text{ textbooks to be transferred under the modification to a binding arrangement})] \div 900,000 \text{ remaining textbooks}\}$.

Duration of a Binding Arrangement

82. Some binding arrangements may have no fixed duration and can be terminated or modified by either party at any time. Other binding arrangements may automatically renew on a periodic basis that is specified in the binding arrangement. A federal entity shall apply this



Standard to the duration of the binding arrangement (i.e., the period of the binding arrangement) in which the parties to the binding arrangement have present enforceable rights and obligations.

Identifying Compliance Obligations in a Binding Arrangement



83. At the inception of the binding arrangement, a federal entity shall assess the goods or services promised in a binding arrangement with a resource provider and shall identify as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties (i.e., the purchaser (the resource provider) or third-party beneficiary), either:
 - A. A good or service (or a bundle of goods or services) that is distinct; or
 - B. A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use internally or transfer to the purchaser or third-party beneficiary (see paragraph 85).
84. A binding arrangement has at least one compliance obligation because its enforceability holds the federal entity accountable for satisfying its obligations of the arrangement, for which the federal entity has little or no realistic alternative to avoid.
85. A series of distinct goods or services has the same pattern of use internally or transfer to the purchaser or third-party beneficiary if both of the following criteria are met:
 - A. Each distinct good or service in the series would meet the criteria in paragraph 113 or 116 to be a compliance obligation satisfied over time; and
 - B. In accordance with paragraphs 119-120, the same method would be used to measure the federal entity's progress towards complete satisfaction of the compliance obligation.

Promises to Use Resources



86. A binding arrangement generally explicitly states the goods or services that a federal entity promises to either obtain for use internally or transfer to a purchaser or third-party beneficiary. However, the compliance obligations identified in a binding arrangement may not be limited to the goods or services that are explicitly stated in that binding arrangement.

This is because a binding arrangement may also include promises that are implied by a federal entity's customary practices, published policies or specific statements if, at the time of entering into the binding arrangement, those promises create a valid expectation of the resource provider that the federal entity will perform, and are of sufficient specificity for them to be able to hold the entity accountable.

87. Compliance obligations do not include activities that a federal entity must undertake to satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, a federal entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not use a resource internally for a service or transfer a service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation.

88. This Standard requires a federal entity to appropriately identify any compliance obligations when it enters into a binding arrangement, and then recognize revenue as or when it satisfies each of the identified compliance obligations in accordance with the terms and conditions of the binding arrangement.
89. Identifying compliance obligations may require significant judgment. A necessary condition for the existence of a compliance obligation is that the promise must be sufficiently specific to be able to determine when that compliance obligation is satisfied. A federal entity considers the following factors in identifying whether a promise is sufficiently specific:
- A. The nature or type of the promise to use resources.
 - B. The cost or value of the distinct goods or services from the promise to use resources.
 - C. The quantity of the distinct goods or services from the promise to use resources; and
 - D. The period over which the use of resources occurs.



90. The existence of performance indicators in relation to the promises may, but does not necessarily, indicate the existence of a compliance obligation as defined in this Standard. A performance indicator is a type of performance measurement (either quantitative, qualitative or descriptive) used to evaluate the success and extent to which a federal entity is using resources, providing services and achieving its service performance objectives. A performance indicator is often an internally imposed measure of performance and not a compliance obligation.

Identifying Distinct Promises to Use Resources

91. A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied. A good or service that is promised in a binding arrangement is distinct if both of the following criteria are met:
- A. The party receiving the good or service can generate economic benefits or service potential from the good or service either on its own or together with other resources that are readily available to that party (i.e., the good or service is capable of being distinct); and
 - B. The federal entity's promise to use resource internally for the good or service or transfer the good or service to the purchaser or third-party beneficiary is separately identifiable from other promises in the binding arrangement (i.e., the promise is distinct within the context of the binding arrangement).
92. A federal entity determines if the party receiving the good or service is itself, resource provider (purchaser), or a specified third-party beneficiary by considering the nature of its compliance obligation.

- A. In a compliance obligation where a federal entity promises to use resources internally for a distinct good or service, the federal entity itself is the recipient of the goods or services.
- B. In a compliance obligation where a federal entity promises to use resources to transfer a distinct good or service to a purchaser or third-party beneficiary, the recipient of the goods or services is either the purchaser, or the third-party beneficiary.

93. A party can generate the economic benefits or service potential from the good or service in accordance with paragraph 91 (A) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits or service potential. For some goods or services, a party may be able to generate economic benefits or service potential from the good or service on its own. For other goods or services, a party may be able to generate economic benefits or service potential from the good or service only in conjunction with other readily available resources.

A readily available resource is a good or service that is sold separately (by the federal entity or another federal entity) or a resource that the party has already obtained from the federal entity (including goods or services that the federal entity will use internally or that will be transferred to the purchaser or third-party beneficiary, under the binding arrangement) or from other transactions or events. Various factors may provide evidence that the party can generate economic benefits or service potential from the good or service either on its own or in conjunction with other readily available resources. For example, the fact that the federal entity regularly internally uses or provides a good or service separately would indicate that a party can generate economic benefits or service potential from the good or service on its own or with other readily available resources.

94. In assessing whether a federal entity's promises to use resources internally for goods or services or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable in accordance with paragraph 91 (B), the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner. Factors that indicate that two or more promises are not separately identifiable include, but are not limited to, the following:

- A. The federal entity provides a significant service of integrating the goods or services with other goods or services promised in the binding arrangement into a bundle of goods or services that represent the combined output or outputs for which the resource provider has entered into binding arrangements. In other words, the federal entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the resource provider. A combined output or outputs might include more than one phase, element or unit.
- B. One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the binding arrangement.

- C. The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the binding arrangement. For example, in some cases, two or more goods or services are significantly affected by each other because the federal entity would not be able to satisfy its promise by using each of the goods or services internally, or transferring each of the goods or services, independently.

95. If a promised good or service is not distinct, a federal entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, which would result in the federal entity accounting for all of the goods or services promised in a binding arrangement as a single compliance obligation.



Example 47.4 - Determining Whether Goods or Services are Distinct

- **Case (A) - Distinct Goods or Services:**

Federal entity "A" enters into a binding arrangement with a university (The university) to provide the following to the university for a two-year period:

- Transfer a software license.
- Perform an installation service and.
- Provide unspecified software updates and technical support (online and telephone).

The Federal entity "A" provides the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

Federal entity "A" assesses the goods and services promised to the university to determine which goods and services are distinct.

Federal entity "A" observes that:

- The software is delivered before the other goods and services and remains functional without the updates and the technical support.
- Federal entity "A" can generate economic benefits or service potential from the updates together with the software license transferred at the start of the binding arrangement.
- Thus, federal entity "A" concludes that the university can generate economic benefits or service potential from each of the goods and services either on their own or together with the other goods and services that are readily available.

Federal entity "A" determines that the promise to transfer each good and service to the university is separately identifiable from each of the other. In reaching this determination, federal entity "A" considers that, although it integrates the software into the university system,

- The installation services do not significantly affect the university ability to use and generate economic benefits or service potential from the software license

Example 47.4 - Determining Whether Goods or Services are Distinct

because the installation services are routine and can be obtained from alternative providers.

- The software updates do not significantly affect the university ability to use, and benefit or receive service potential from, the software license during the license period. Federal entity “A” further observes that none of the promised goods or services significantly modify or customize one another, nor is federal entity “A” providing a significant service of integrating the software and the services into a combined output.
- Lastly, federal entity “A” concludes that the software and the services do not significantly affect each other and, therefore, are not highly interdependent or highly interrelated, because federal entity “A” would be able to satisfy its promise to transfer the initial software license independently from its promise to subsequently provide the installation service, software updates or technical support.

On the basis of this assessment, federal entity “A” identifies four compliance obligations in the binding arrangement to transfer the following goods or services to another party:

- The software license.
- An installation service.
- Software updates; and
- Technical support.

Federal entity “A” determines whether each of the compliance obligations for the installation service, software updates and technical support is satisfied at a point in time or over time. Federal entity “A” also assesses the nature of federal entity “A” promise to transfer the software license.

- **Case (B) - Significant Customization:**

The promised goods and services are the same as in Case A, except that the binding arrangement specifies that, as part of the installation service, the software is to be substantially customized to add significant new functionality to enable the software to interface with other customized software applications used by the university. The customized installation service can be provided by other entities.

Federal entity “A” assesses the goods and services promised to the university to determine which goods and services are distinct.

For the same reasons as in Case A, federal entity “A” determines that the software license, installation, software updates and technical support each meet that criterion. Federal entity “A” observes that:

- The terms of the binding arrangement result in a promise to provide a significant service of integrating the licensed software into the existing software system by performing a customized installation service as specified in the binding arrangement.
- In other words, federal entity “A” is using the license and the customized installation service as inputs to produce the combined output (i.e., a functional

Example 47.4 - Determining Whether Goods or Services are Distinct

and integrated software system) specified in the binding arrangement. The software is significantly modified and customized by the service.

- Consequently, federal entity “A” determines that the promise to transfer the license is not separately identifiable from the customized installation service.

Thus, the software license and the customized installation service are not distinct.

On the basis of the same analysis as in Case A, federal entity “A” concludes that the software updates and technical support are distinct from the other promises in the binding arrangement.

On the basis of this assessment, federal entity “A” identifies three compliance obligations in the binding arrangement to transfer the following goods or services to another party:

- Software customization (which comprises the license for the software and the customized installation service).
- Software updates; and
- Technical support.

Federal Entity “A” applies FGAAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

- **Case (C) - Promises are Separately Identifiable (Installation):**

Federal entity “A” enters into a binding arrangement with a local government entity to provide a piece of equipment and installation services. The equipment is operational without any customization or modification. The installation required is not complex and is capable of being performed by several alternative service providers.

Federal entity “A” identifies two promised goods and services in the binding arrangement: (a) equipment and (b) installation. Federal entity “A” determines whether each promised good or service is distinct.

Federal entity “A” determines that:

- The equipment and the installation each meet the criterion in FGAAS 47 related to “Identifying Distinct Promises to Use Resources”. The local government entity can generate economic benefits or service potential from the equipment on its own, by using it or reselling it, or together with other readily available resources (for example, installation services available from alternative providers).
- The local government entity also can generate economic benefits or service potential from the installation services together with other resources that the local government entity will already have obtained from federal entity “A” (i.e., the equipment).

Federal entity “A” further determines that its promises to transfer the equipment and to provide the installation services are each separately identifiable. Federal entity “A” considers the principle and the factors in determining that the equipment and the installation services are not inputs to a combined item in this binding arrangement. In this case, each of the factors contributes to, but is not individually determinative of, the conclusion that the equipment and the installation services are separately identifiable as follows:

1. Federal entity “A” is not providing a significant integration service. That is, federal entity “A” has promised to deliver the equipment and then install it; federal entity

Example 47.4 - Determining Whether Goods or Services are Distinct

"A" would be able to satisfy its promise to transfer the equipment separately from its promise to subsequently install it. Federal entity "A" has not promised to combine the equipment and the installation services in a way that would transform them into a combined output.

2. Federal entity "A" installation services will not significantly customize or significantly modify the equipment.
3. Although the local government entity can generate economic benefits or service potential from the installation services only after it has obtained control of the equipment, the installation services do not significantly affect the equipment because federal entity "A" would be able to satisfy its promise to transfer the equipment independently of its promise to provide the installation services. Because the equipment and the installation services do not each significantly affect the other, they are not highly interdependent or highly interrelated.

On the basis of this assessment, federal entity "A" identifies two compliance obligations in the binding arrangement to transfer the following goods or services to another party:

- The equipment; and
- Installation services.

Federal entity "A" applies FGAAS 47 to determine whether each compliance obligation is satisfied at a point in time or over time.

- **Case (D) - Promises are Separately Identifiable (Restrictions to a Binding Arrangement):**

Assume the same facts as in Case C, except that the local government entity is required to use federal entity "A" installation services in the binding arrangement.

The binding arrangement requirement to use federal entity "A" installation services does not change the evaluation of whether the promised goods and services are distinct in this case. This is because the binding arrangement requirement to use federal entity "A" installation services does not change the characteristics of the goods or services themselves, nor does it change federal entity "A" promises to the local government entity. Although the local government entity is required to use federal entity "A" installation services, the equipment and the installation services are capable of being distinct and federal entity "A" promises to provide the equipment and to provide the installation services are each separately identifiable. Federal entity "A" analysis in this regard is consistent with that in Case C.

Initial Recognition of Revenue Transactions with a Binding Arrangement

96. When a binding arrangement is wholly unsatisfied in accordance with paragraph 72, a federal entity shall not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous. The recognition of assets, liabilities, and revenues commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.

97. Where a binding arrangement becomes onerous, a federal entity shall account for the expected deficit in accordance with FGAAS 19.
98. A federal entity's rights and obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined rights and obligations constitute a single asset or liability that is measured at zero. Individual rights and obligations are recognized as items (assets, liabilities, revenue and expenses depending on their nature) only when (or as) one or more parties to the binding arrangement satisfy their obligations.
99. Where parts of the binding arrangement remain equally unsatisfied, the federal entity shall not recognize any asset, liability or revenue for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Analysis of the Initial Inflow of Resources



100. A federal entity may receive or have the right to an inflow of resources arising from a revenue transaction with a binding arrangement before or after it begins satisfying its compliance obligations. A federal entity should apply paragraphs 31-38 and recognize an inflow of resources from a revenue transaction with a binding arrangement as an asset when the definition of, and the recognition criteria for, an asset are met.

Existence and Recognition of a Liability



101. Federal entities typically receive resources from governments or other federal entities. When a federal entity recognizes an asset for an inflow of resources, it shall consider if there are compliance obligations related to the inflow which result in the recognition of a liability.
102. A compliance obligation gives rise to a liability when:
- A. The federal entity has received resources associated with its unsatisfied or partially unsatisfied compliance obligation in a binding arrangement; and
 - B. The resource provider can enforce the binding arrangement, if the federal entity does not satisfy the compliance obligation(s) associated with the consideration received, by requiring the entity to transfer resources to another party in compliance with the terms of the binding arrangement.
103. A federal entity's compliance obligation in a binding arrangement may give rise to a liability. A liability is defined as a present obligation of the federal entity to transfer resources as a result of past events.
104. In accordance with paragraph 40, a liability exists if the federal entity cannot avoid a transfer of resources as a consequence of past events, and the transfer of resources is probable. A federal entity should consider the facts and circumstances relating to the binding arrangement to determine if the other party or parties (which is typically the resource provider) are able to enforce their rights and impose a consequence that requires an incremental transfer of resources as a result of the federal entity's non-compliance (i.e., not satisfying its compliance obligation(s)).

105. As an administrative convenience, a transfer of resources as a consequence of the federal entity not satisfying its compliance obligations may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The federal entity will still recognize the gross amounts in its financial statements: that is, the federal entity will recognize a reduction in assets and liabilities for the return of the transfer under the terms of the breached binding arrangement, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.
106. If a federal entity receives resources prior to both the parties agreeing to the terms of the arrangement and it is expected that a binding arrangement will be entered into, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.
107. A compliance obligation that meets the definition of a liability shall be recognized as a liability when, and only when the amount of the obligation can be measured reliably. The federal entity shall continue to recognize the liability until one of the events in paragraph 70 is subsequently met.

Recognition of Revenue Transactions with a Binding Arrangement



108. When a federal entity receives an inflow of resources in a revenue transaction with a binding arrangement that meets the definition of and recognition criteria for, an asset in accordance with paragraphs 31-38, the entity shall recognize:

- A. Revenue for any satisfied compliance obligations in respect of the same inflow; and
- B. A liability for any unsatisfied compliance obligations in respect of the same inflow.

109. The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. A federal entity shall recognize revenue from a transaction with a binding arrangement when (or as) the federal entity satisfies a compliance obligation by using resources in the specified manner, in compliance with the terms of the binding arrangement.

The federal entity shall reduce the carrying amount of any liability that was recognized by an equal amount.

110. A federal entity satisfies a compliance obligation by using resources internally for a promised good or service (i.e., an asset), or to transfer a promised good or service to a purchaser or third-party beneficiary. An asset is used internally or transferred when (or as) the entity receiving the asset obtains control of that asset.
111. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control includes the ability to prevent other federal entities from directing the use of, and obtaining the benefits from, a resource. The economic benefits or service potential embodied in a resource are the potential cash flows (inflows or savings in outflows), or the capability to provide services that contribute to achieving the federal entity's objectives, which can be obtained directly or indirectly in many ways, such as by:

- A. Using the resource to provide internal training.

- B. Using the resource to produce goods or provide services (including public services).
- C. Using the resource to enhance the value of other assets.
- D. Using the resource to settle liabilities or reduce expenses.
- E. Selling or exchanging the resource.
- F. Pledging the resource to secure a loan; and
- G. Holding the resource.

112. For each compliance obligation identified, a federal entity shall determine at the inception of the binding arrangement whether it satisfies the compliance obligation over time or satisfies the compliance obligation at a point in time. If the federal entity does not satisfy a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Compliance Obligations to Use Resources for Goods or Services Internally Satisfied Over Time



113. A federal entity obtains control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:

- A. The federal entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs.
- B. The federal entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced; or
- C. The federal entity has an enforceable right to consideration for performance completed to date (see the below paragraph).

114. A federal entity shall consider the terms of the binding arrangement, as well as any laws that apply to the binding arrangement, when evaluating whether it has an enforceable right to consideration for any compliance obligation completed to date in accordance with paragraph (C) above. The right to consideration for any compliance obligation completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the binding arrangement, the entity must be entitled to an amount that at least compensates the entity for any compliance obligation completed to date if the binding arrangement is terminated by the resource provider or another party with enforceable rights and obligations in the binding arrangement for reasons other than the entity's failure to perform as promised.

Satisfied at a Point in Time



115. If a compliance obligation is not satisfied over time in accordance with the above paragraphs, a federal entity satisfies the compliance obligation at a point in time. To determine the point in time at which the federal entity obtains control of a promised asset and satisfies a compliance obligation, the federal entity shall consider the requirements for control in paragraphs 110-111.

Compliance Obligations to Transfer Goods or Services to Another Party (Purchaser or Third-Party Beneficiary)

Satisfied Over Time



116. A federal entity transfers control of a good or service over time and, therefore, satisfies a compliance obligation and recognizes revenue over time, if one of the following criteria is met:

- A. The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the federal entity's performance as the federal entity performs.
- B. The federal entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced; or
- C. The federal entity's performance does not create an asset with an alternative use to the federal entity (see the below paragraph) and the federal entity has an enforceable right to consideration for performance completed to date.

117. An asset created by a federal entity's performance does not have an alternative use to a federal entity if the federal entity is either restricted by the binding arrangement from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use.

The assessment of whether an asset has an alternative use to the federal entity is made at the inception of the binding arrangement. After the inception of the binding arrangement, an entity shall not update the assessment of the alternative use of an asset unless the parties to the binding arrangement approve a modification to a binding arrangement that substantively changes the compliance obligation.

Satisfied at a Point in Time



118. If a compliance obligation is not satisfied over time in accordance with the above paragraphs, a federal entity satisfies the compliance obligation at a point in time. To determine the point in time at which a purchaser or third-party beneficiary obtains control of a promised asset and the federal entity satisfies a compliance obligation, the federal entity shall consider the requirements for control in paragraphs 110-111. In addition, a federal entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- A. The federal entity has a present right to consideration for the asset – if a resource provider is presently obligated to pay for an asset, then that may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset in exchange.
- B. The purchaser or third-party beneficiary has legal title to the asset – legal title may indicate which party to a binding arrangement has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, an asset or to restrict the access of other entities to those

economic benefits or service potential. Therefore, the transfer of legal title of an asset may indicate that the purchaser or third-party beneficiary has obtained control of the asset. If a federal entity retains legal title solely as protection against the resource provider's failure to pay, those rights of the federal entity would not preclude the purchaser or third-party beneficiary from obtaining control of an asset.

- C. The federal entity has transferred physical possession of the asset – the purchaser's or third-party beneficiary's physical possession of an asset may indicate that the resource provider has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset or to restrict the access of other entities to those economic benefits or service potential. However, physical possession may not coincide with control of an asset.
- D. The purchaser or third-party beneficiary has the significant risks and rewards of ownership of the asset – the transfer of the significant risks and rewards of ownership of an asset to the purchaser or third-party beneficiary may indicate that the resource provider has obtained the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, a federal entity shall exclude any risks that give rise to a separate compliance obligation in addition to the compliance obligation to transfer the asset. For example, a federal entity may have transferred control of an asset to a resource provider but not yet satisfied an additional compliance obligation to provide maintenance services related to the transferred asset.
- E. The resource provider has accepted the asset – the resource provider's acceptance of an asset may indicate that it has obtained the ability to direct the use of and obtain substantially all of the remaining economic benefits or service potential from, the asset.

Example 47.5 - Recognition of Revenue Transactions with a Binding Arrangement-Resource Provider Simultaneously Receives and Consumes the Economic Benefits or Service Potential

- **Case (A) - Satisfaction of Compliance Obligation to Use Resources for Goods or Services Internally:**

A local government enters into a binding arrangement to provide AED 1.2 million to a federal entity. the local government requires the federal entity to use the AED 1.2 million in the operation of its medical imaging department.

The use of funds in the medical imaging department is a single compliance obligation. The compliance obligation is satisfied over time because the federal entity simultaneously receives and consumes the economic benefits or service potential of the received resources as it is used. The federal entity recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation.



Example 47.5 - Recognition of Revenue Transactions with a Binding Arrangement-Resource Provider Simultaneously Receives and Consumes the Economic Benefits or Service Potential

- **Case (B) - Satisfaction of Compliance Obligation to Transfer Goods or Services to Another Party:**

Federal entity "A" enters into a binding arrangement to provide monthly payroll processing services to federal entity "B" for one year.

The promised payroll processing services are accounted for as a single compliance obligation. The compliance obligation is satisfied over time because federal entity "B" simultaneously receives and consumes the economic benefits or service potential of the Payroll Center's performance in processing each payroll transaction as and when each transaction is processed. The fact that another entity would not need to re-perform payroll processing services for the service that federal entity "A" has provided to date also demonstrates that federal entity "B" simultaneously receives and consumes the economic benefits or service potential of federal entity "A" performance as federal entity "A" performs. Federal entity "A" disregards any practical limitations on transferring the remaining compliance obligation, including setup activities that would need to be undertaken by another entity. Federal entity "A" recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation



119. For each compliance obligation satisfied over time (for compliance obligations to use goods or services internally) or (for compliance obligations to transfer goods or services to another party), a federal entity shall recognize revenue over time by measuring the progress towards complete satisfaction of that compliance obligation. The objective when measuring progress is to depict a federal entity's performance to satisfy its compliance obligation.
120. A federal entity shall apply a single method of measuring progress for each compliance obligation satisfied over time and the federal entity shall apply that method consistently to similar compliance obligations and in similar circumstances. At the end of each reporting period, a federal entity shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

Methods for Measuring Progress



121. In determining the appropriate method for measuring progress, a federal entity shall consider the nature of the federal entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures a federal entity is to perform or incur, respectively.

122. When applying a method for measuring progress for a specific compliance obligation, a federal entity shall exclude from the measure of progress any goods or services not directly related to that compliance obligation:

- A. For a compliance obligation where the federal entity promises to use resources internally for a distinct good or service, the federal entity shall exclude from the measure of progress any goods or services for which the federal entity does not retain control. Conversely, a federal entity shall include in the measure of progress any goods or services for which the federal entity retains control when satisfying that compliance obligation; and
- B. For a compliance obligation where the federal entity promises to use resources to transfer a distinct good or service to another party, the federal entity shall exclude from the measure of progress any goods or services for which the federal entity does not transfer control to another party (i.e., a purchaser or third-party beneficiary). Conversely, a federal entity shall include in the measure of progress any goods or services for which the federal entity does transfer control to another party (i.e., a purchaser or third-party beneficiary) when satisfying that compliance obligation.

123. As circumstances change over time, a federal entity shall update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. Such changes to a federal entity's measure of progress shall be accounted for as a change in accounting estimate in accordance with FGAAS 3.

Reasonable Measures of Progress



124. A federal entity shall recognize revenue for a compliance obligation satisfied over time only if the federal entity can reasonably measure its progress towards complete satisfaction of the compliance obligation. A federal entity would not be able to reasonably measure its progress towards complete satisfaction of a compliance obligation if it lacks reliable information that would be required to apply an appropriate method of measuring progress.

125. In some circumstances (for example, in the early stages of a binding arrangement), a federal entity may not be able to reasonably measure the outcome of a compliance obligation, but the federal entity expects to recover the costs incurred in satisfying the compliance obligation. In those circumstances, the federal entity shall recognize revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the compliance obligation.



Principal versus Agent Considerations - Measuring Progress Towards Complete Satisfaction of a Compliance Obligation- Measuring Progress for Uninstalled Materials

In November 2026, a federal entity enters into a binding arrangement with another department to refurbish a 3-storey building and install new elevators for a total consideration of AED 5 million. The federal entity concluded that the promised refurbishment service, including the installation of elevators, is a single compliance obligation satisfied over time.



Principal versus Agent Considerations - Measuring Progress Towards Complete Satisfaction of a Compliance Obligation- Measuring Progress for Uninstalled Materials

Total expected costs are AED 4 million, including AED 1.5 million for the elevators. The federal entity determines that it acts as a principal because it obtains control of the elevators before they are transferred to the other department.

A summary of the transaction consideration and expected costs is as follows:

	AED
Transaction consideration	5,000,000
Expected costs:	
Elevators	1,500,000
Other costs	2,500,000
Total expected costs	4,000,000

The federal entity uses an input method based on costs incurred to measure its progress towards complete satisfaction of the compliance obligation. The federal entity assesses whether the costs incurred to procure the elevators are proportionate to the federal entity's progress in satisfying the compliance obligation. The other department obtains control of the elevators when they are delivered to the site in December 2026, although the elevators will not be installed until June 2027.

The costs to procure the elevators (AED 1.5 million) are significant relative to the total expected costs to completely satisfy the compliance obligation (AED 4 million). The federal entity is not involved in designing or manufacturing the elevators.

The federal entity concludes that including the costs to procure the elevators in the measure of progress would overstate the extent of its performance. Consequently, it adjusts its measure of progress to exclude the costs to procure the elevators from the measure of costs incurred and from the transaction consideration. The federal entity recognizes revenue for the transfer of the elevators in an amount equal to the costs to procure the elevators (i.e., at a zero margin).

As of December 31, 2026, the federal entity observes that:

- (a) Other costs incurred (excluding elevators) are AED 500,000; and
- (b) Performance is 20 percent complete (i.e., AED 500,000 ÷ AED 2,500,000).

Consequently, on December 31, 2026, the federal entity recognizes the following:

	AED	
Revenue	2,200,000	(A)
Cost of goods sold	(2,000,000)	(B)
Profit	200,000	

(A) Revenue recognized is calculated as (20 per cent × AED 3,500,000) + AED 1,500,000.



Principal versus Agent Considerations - Measuring Progress Towards Complete Satisfaction of a Compliance Obligation- Measuring Progress for Uninstalled Materials

(AED 3,500,000 is AED 5,000,000 transaction consideration - AED 1,500,000 costs of elevators.)

(B) Cost of goods sold is AED 500,000 of costs incurred + AED 1,500,000 costs of elevators.



Principal versus Agent Considerations

126. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, the federal entity shall determine whether the nature of its promise is a compliance obligation to provide the specified goods or services itself (i.e., the federal entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the federal entity is an agent). A federal entity determines whether it is a principal or an agent for each specified good or service promised to the purchaser or third-party beneficiary. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the purchaser or third-party beneficiary. If a binding arrangement with a resource provider includes more than one specified good or service, a federal entity could be a principal for some specified goods or services and an agent for others.

127. To determine the nature of its promise, the federal entity shall:

- A. Identify the specified goods or services to be provided to the purchaser or third-party beneficiary (which, for example, could be a right to a good or service to be provided by another party); and
- B. Assess whether it controls each specified good or service before that good or service is transferred to the purchaser or third-party beneficiary.

128. A federal entity is a principal if it controls the specified good or service before that good or service is transferred to a purchaser or third-party beneficiary. However, a federal entity does not necessarily control a specified good if the federal entity obtains legal title to that good only momentarily before legal title is transferred to a purchaser or third-party beneficiary. A federal entity that is a principal may satisfy its compliance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the compliance obligation on its behalf.

129. When another party is involved in providing goods or services to a purchaser or third-party beneficiary, a federal entity that is a principal obtains control of any one of the following:

- A. A good or another asset from the other party that it then transfers to the purchaser or third-party beneficiary.
- B. A right to a service to be performed by the other party, which gives the federal entity the ability to direct that party to provide the service to the purchaser or third-party beneficiary on the federal entity's behalf.

- C. A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the purchaser or third-party beneficiary. For example, if a federal entity provides a significant service of integrating goods or services provided by another party into the specified good or service for which the resource provider has entered into a binding arrangement, the federal entity controls the specified good or service before that good or service is transferred to the purchaser or third-party beneficiary. This is because the federal entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.
130. When (or as) a federal entity that is a principal satisfies a compliance obligation, the federal entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.
131. A federal entity is an agent if the federal entity's compliance obligation is to arrange for the provision of the specified good or service by another party. A federal entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the purchaser or third-party beneficiary. When (or as) a federal entity that is an agent satisfies a compliance obligation, the federal entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. A federal entity's fee or commission might be the net amount of consideration that the federal entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.
132. Indicators that federal entity controls the specified good or service before it is transferred to the purchaser or third-party beneficiary (and is therefore a principal) include, but are not limited to, the following:
- A. The federal entity is primarily responsible for satisfying the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting resource provider specifications). If the federal entity is primarily responsible for satisfying the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the federal entity's behalf.
 - B. The federal entity has inventory risk before the specified good or service has been transferred to a purchaser or third-party beneficiary or after transfer of control to the resource provider (for example, if the resource provider has a right of return). For example, if the federal entity obtains, or commits itself to obtain, the specified good or service before obtaining a binding arrangement with a resource provider, that may indicate that the federal entity has the ability to direct the use of, and obtain substantially all of the remaining economic benefits or service potential from, the good or service before it is transferred to the purchaser or third-party beneficiary.

- C. The federal entity has discretion in establishing the price for the specified good or service. Establishing the price that the resource provider pays for the specified good or service may indicate that the federal entity has the ability to direct the use of that good or service and obtain substantially all of the remaining economic benefits or service potential. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to purchasers or third-party beneficiaries.

133. The indicators in the above paragraph may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the binding arrangement. In addition, different indicators may provide more persuasive evidence in different binding arrangements.

134. If another entity assumes the entity's compliance obligations and rights in the binding arrangement so that the entity is no longer required to satisfy the compliance obligation to transfer the specified good or service to the purchaser or third-party beneficiary (i.e., the federal entity is no longer acting as the principal), the federal entity shall not recognize revenue for that compliance obligation. Instead, the federal entity shall evaluate whether to recognize revenue for satisfying a compliance obligation to obtain a binding arrangement for the other party (i.e., whether the entity is acting as an agent).

Example 47.7 - Principal versus Agent Considerations - Promise to Provide Goods or Services (Entity is a principal)

Federal entity "A" enters into a binding arrangement with federal entity "B" to provide office maintenance services on federal entity "B" properties. Federal entity "A" and federal entity "B" define and agree on the scope of the maintenance services and negotiate the price. Federal entity "A" is responsible for ensuring that the services are performed in accordance with the terms and conditions in the binding arrangement. Federal entity "A" invoices federal entity "B" for the agreed-upon price on a monthly basis with 10-day payment terms.

Federal entity "A" regularly engages third-party service providers to provide maintenance services to its purchasers. When federal entity "A" obtains a binding arrangement from a purchaser, federal entity "A" enters into a binding arrangement with one of those service providers, directing the service provider to perform office maintenance services for federal entity "B". The payment terms in the binding arrangements with the service providers are generally aligned with the payment terms in federal entity "A" binding arrangements with purchasers. However, federal entity "A" is obligated to pay the service provider even if federal entity "B" fails to pay.

To determine whether federal

entity "A" is a principal or an agent, federal entity "A" identifies the specified good or service to be provided to federal entity "B" and assesses whether it controls that good or service before the good or service is transferred to federal entity "B".

Federal entity "A" observes that:



Example 47.7 - Principal versus Agent Considerations - Promise to Provide Goods or Services (Entity is a principal)

- the specified services to be provided to federal entity "B" are the office maintenance services for which federal entity "B" entered into a binding arrangement, and that no other goods or services are promised to federal entity "B".
- While federal entity "A" obtains a right to office maintenance services from the service provider after entering into the binding arrangement with federal entity "B", that right is not transferred to federal entity "B".

That is, federal entity "A" retains the ability to direct the use of and obtain substantially all of the remaining economic benefits or service potential from, that right. For example, federal entity "A" can decide whether to direct the service provider to provide the office maintenance services for federal entity "B", or for another purchaser, or at its own facilities.

- Federal entity "B" does not have a right to direct the service provider to perform services that federal entity "A" has not agreed to provide. Therefore, the right to office maintenance services obtained by federal entity "A" from the service provider is not the specified good or service in its binding arrangement with federal entity "B".

Federal entity "A" concludes that it controls the specified services before they are provided to federal entity "B". Federal entity "A" obtains control of a right to office maintenance services after entering into the binding arrangement with federal entity "B" but before those services are provided to federal entity "B". The terms of federal entity "A" binding arrangement with the service provider give federal entity "A" the ability to direct the service provider to provide the specified services on federal entity "A" behalf. In addition, federal entity "A" concludes that the following indicators provide further evidence that federal entity "A" controls the office maintenance services before they are provided to federal entity "B":

- Federal entity "A" is primarily responsible for satisfying the promise to provide office maintenance services. Although federal entity "A" has hired a service provider to perform the services promised to federal entity "B", it is federal entity "A" itself that is responsible for ensuring that the services are performed and are acceptable to federal entity "B" (i.e., federal entity "A" is responsible for satisfying the promise in the binding arrangement, regardless of whether federal entity "A" performs the services itself or engages a third-party service provider to perform the services).
- Federal Entity "A" has discretion in setting the price for the services to the Federal Entity "B".

Federal entity "A" observes that it does not commit itself to obtain the services from the service provider before obtaining the binding arrangement with federal entity "B". Thus, federal entity "A" has mitigated inventory risk with respect to the office maintenance services. Nonetheless, federal entity "A" concludes that it controls the office maintenance services before they are provided to federal entity "B" on the basis of the evidence in the above paragraph.

Example 47.7 - Principal versus Agent Considerations - Promise to Provide Goods or Services (Entity is a principal)

Thus, federal entity "A" is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from federal entity "B" in exchange for the office maintenance services.

Subsequent Consideration of Asset Recognition Criteria



135. When an inflow of resources from a binding arrangement within the scope of this Standard does not meet the criteria in paragraph 31, and a federal entity subsequently receives an inflow of resources from the resource provider, the federal entity shall recognize the inflow received as revenue only when either of the following events has occurred:

- A. The federal entity has no unsatisfied compliance obligation; or
- B. The arrangement has been terminated and the inflow received from the resource provider is non-refundable.

Measurement

Measurement of Assets from an Inflow of Resources



136. An asset in a revenue transaction with a binding arrangement shall initially be measured by the federal entity at its transaction consideration as at the date in which the criteria for asset recognition are satisfied (see paragraphs 139-165). A federal entity shall subsequently measure the asset in accordance with paragraph 44.

Measurement of Liabilities

137. The amount recognized as a liability shall be the best estimate of the amount required to settle the compliance obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognized for the inflow of resources. A federal entity shall apply paragraph 46 in determining its best estimate of the liability.

Measurement of Revenue Transactions with Binding Arrangements

138. When (or as) a compliance obligation is satisfied, a federal entity shall recognize as revenue the amount of the transaction consideration (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 153-154) that is allocated to that compliance obligation.

Determining the Transaction Consideration



139. A federal entity shall consider the terms of the binding arrangement and its customary practices to determine the transaction consideration. The transaction consideration is the number of resources to which a federal entity expects to be entitled in the binding

arrangement for satisfying its compliance obligations, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both.

140. Credit risk is not considered when determining the amount, the federal entity expects to be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in FGAAS 41.
141. The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, a federal entity shall consider the effects of all of the following:
- A. Variable consideration (see paragraphs 143-147 and 155).
 - B. Constraining estimates of variable consideration (see paragraphs 153-154).
 - C. The existence of a significant financing component in the binding arrangement (see paragraphs 156-161).
 - D. Non-cash consideration (see paragraphs 162-165); and
 - E. Consideration payable to a resource provider (see paragraphs 166-169).
142. For the purpose of determining the transaction consideration, a federal entity shall assume that the consideration will be received in accordance with the terms of the existing binding arrangement and that the binding arrangement will not be cancelled, renewed or modified.

Variable Consideration



143. If the consideration in the binding arrangement includes a variable amount, a federal entity shall estimate the amount of the consideration to which the federal entity expects to collect from the resource provider.
144. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The consideration can also vary if a federal entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if a fixed amount is promised as a performance bonus on achievement of a milestone specified in the binding arrangement.
145. The variability relating to the consideration may be explicitly stated in laws, regulations, or a binding arrangement. In addition to the terms of laws, regulations, or a binding arrangement, the consideration is variable if either of the following circumstances exists:
- A. The resource provider has a valid expectation arising from a federal entity's customary practices, published policies or specific statements that the federal entity will accept an amount of consideration that is less than the amount stated in the binding arrangement or applicable legislation. That is, it is expected that the entity will offer or accept a reduced amount due to a concession. Depending on the sector or resource provider, this offer may be referred to as a discount, rebate, refund or credit; or

- B. Other facts and circumstances indicate that the federal entity's intention, when entering into the arrangement with the resource provider, is to offer a price concession to the resource provider.

146. A federal entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it expects to be entitled to:

- A. The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if a federal entity has a large number of binding arrangements with similar characteristics; or
- B. The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, a federal entity either completes construction of infrastructure on schedule or not).

147. A federal entity shall apply one method consistently when estimating the effect of uncertainty on an amount of variable consideration to which the federal entity expects to be entitled. In addition, a federal entity shall consider all the information (historical, current and forecast) that is reasonably available to the federal entity and shall identify a reasonable number of possible consideration amounts. The information that a federal entity uses to estimate the amount of variable consideration would typically be similar to the information that the federal entity's management uses to estimate the amount receivable. In cases where the binding arrangement requires the federal entity to transfer distinct goods or services to another party, the information would typically be similar to the information that the federal entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

Example 47.8 - Measurement of Revenue Transactions with a Binding Arrangement - Estimating Variable Consideration



Federal entity "A" enters into a binding arrangement with federal entity "B" to build a bridge. The promise to transfer the bridge is a compliance obligation that is satisfied over time. The promised consideration is AED 25 million, but that amount will be reduced or increased depending on the timing of completion of the bridge. Specifically, for each day after March 31, 2027, that the bridge is incomplete, the promised consideration is reduced by AED 100,000. For each day before March 31, 2027, that the bridge is complete, the promised consideration increases by AED 100,000.

In addition, upon completion of the bridge, a third party will inspect the bridge and assign a rating based on metrics that are defined in the binding arrangement. If the bridge receives a specified rating, federal entity "A" will be entitled to an incentive bonus of AED 1.5 million.

Example 47.8 - Measurement of Revenue Transactions with a Binding Arrangement - Estimating Variable Consideration

Federal entity "A" determines that the consideration promised in the binding arrangement includes a variable amount and estimates the amount of consideration it is entitled to. In determining the transaction consideration, federal entity "A" prepares a separate estimate for each element of variable consideration to which federal entity "A" will be entitled using the estimation methods:

- Federal entity "A" decides to use the expected value method to estimate the variable consideration associated with the daily penalty or incentive (i.e., AED 25 million, plus or minus AED 100,000 per day). This is because it is the method that federal entity "A" expects to better predict the amount of consideration to which it will be entitled.
- Federal entity "A" decides to use the most likely amount to estimate the variable consideration associated with the incentive bonus. This is because there are only two possible outcomes (AED 1.5 million or AED 0), and it is the method that federal entity "A" expects to better predict the amount of consideration to which it will be entitled.

Federal entity "A" considers constraining estimates of variable consideration to determine whether it should include some or all of its estimate of variable consideration in the transaction consideration.

Refund Liabilities



148. A federal entity may enter into a binding arrangement which includes a right of return. In these cases, the federal entity shall recognize a refund liability if the federal entity receives consideration from a resource provider and expects to refund some or all of that consideration to the resource provider relating to a transfer of distinct goods or services to a purchaser or third-party beneficiary.

149. A refund liability is measured at the amount of consideration received (or receivable) for which the federal entity does not expect to be entitled (i.e., amounts not included in the transaction consideration). The refund liability (and corresponding change in the transaction consideration and, therefore, the binding arrangement liability) shall be updated at the end of each reporting period for changes in circumstances.

150. In some binding arrangements, a federal entity transfers control of a product to a resource provider and also grants the resource provider the right to return the product for various reasons (such as dissatisfaction with the product) and receive any combination of the following:

- A. A full or partial refund of any consideration paid.
- B. A credit that can be applied against amounts owed, or that will be owed, to the federal entity; and
- C. Another product in exchange.

151. To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), a federal entity shall recognize all of the following:

- A. Revenue for the transferred products in the amount of consideration to which the federal entity expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned).
- B. A refund liability; and
- C. An asset (and corresponding adjustment to cost of sales) for its right to recover products from resource providers on settling the refund liability.

152. A federal entity's promise to stand ready to accept a returned product during the return period shall not be accounted for as a compliance obligation in addition to the obligation to provide a refund.

Constraining Estimates of Variable Consideration



153. A federal entity shall include in the transaction consideration some or all of an amount of variable consideration estimated in accordance with paragraph 146 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

154. In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, a federal entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- A. The amount of consideration is highly susceptible to factors outside the federal entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the consideration (when it is non-cash) or the promised good or service.
- B. The uncertainty about the amount of consideration is not expected to be resolved for a long period of time. This uncertainty may result from the amount being determined in a period subsequent to timing of the obligating event.
- C. The federal entity's experience (or other evidence) with similar types of binding arrangements is limited, or that experience (or other evidence) has limited predictive value.
- D. The federal entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar binding arrangements in similar circumstances.
- E. The binding arrangement has a large number and broad range of possible consideration amounts.

Reassessment of Variable Consideration



155. At the end of each reporting period, a federal entity shall update the estimated transaction consideration (including updating its assessment of whether an estimate of variable inflow is constrained) to represent faithfully the circumstances present at the end of the reporting

period and the changes in circumstances during the reporting period. The federal entity shall account for changes in the transaction consideration in accordance with paragraphs 185-188.

The Existence of a Significant Financing Component in the Binding Arrangement



156. In determining the transaction consideration, a federal entity shall adjust the amount of consideration for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement (either explicitly or implicitly) provides the resource provider or the federal entity with a significant benefit of financing the binding arrangement. In those circumstances, the binding arrangement contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the binding arrangement or implied by the terms agreed to by the parties to the binding arrangement or applicable laws and/or regulations.

157. The objective when adjusting the promised amount of consideration for a significant financing component is for a federal entity to recognize revenue at an amount that reflects the consideration that a resource provider would have transferred if the resource provider had transferred cash (i.e., the cash price) for those goods or services promised in the compliance obligation when (or as) the federal entity uses them (internally) or transfers them (to the purchaser or third-party beneficiary). A federal entity shall consider all relevant facts and circumstances in assessing whether a binding arrangement contains a financing component and whether that financing component is significant to the binding arrangement, including both of the following:

- A. The difference, if any, between the amount of promised consideration and the cash price of the promised goods or services in the compliance obligation; and
- B. The combined effect of both of the following:
 - ✓ The expected length of time between when the federal entity satisfies the compliance obligation (if any) and when the resource provider transfers the consideration; and
 - ✓ The prevailing interest rates in the relevant market.

158. Notwithstanding the assessment in the above paragraph, a binding arrangement with a resource provider would not have a significant financing component if any of the following factors exist:

- A. The resource provider made the transfer in advance and the timing of when the compliance obligation is satisfied is at the discretion of the resource provider.
- B. A substantial amount of the inflow promised by the resource provider is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of the resource provider or the federal entity.
- C. The difference between the consideration and the cash price of the transfer (as described in the previous paragraph) arises for reasons other than the provision of finance to either the resource provider or the federal entity, and the difference between those amounts is proportional to the reason for the difference. For

example, the terms might provide the federal entity or the resource provider with protection from the other party failing to adequately complete some or all of its obligations under the binding arrangement.

159. As a practical expedient, a federal entity need not adjust the consideration for the effects of a significant financing component if the federal entity expects, at the inception of the binding arrangement, that the period between when the federal entity satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.
160. To meet the objective in paragraph 157 when adjusting the consideration for a significant financing component, a federal entity shall use the discount rate that would be reflected in a separate financing transaction between the federal entity and its resource provider at the inception of the binding arrangement. That rate would reflect the credit characteristics of the party receiving financing in the binding arrangement, as well as any collateral or security provided by the resource provider or the federal entity, including assets transferred in the binding arrangement. A federal entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the consideration to the price that the resource provider would transfer when (or as) the compliance obligation is satisfied (where applicable). After the inception of the binding arrangement, a federal entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the resource provider's credit risk).
161. A federal entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement.

Non-Cash Consideration



162. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or right to a non-cash inflow) at its current value, in accordance with the relevant FGAAS, as at the time when the criteria for asset recognition are satisfied.
163. If a federal entity cannot reasonably estimate the current value of the non-cash consideration, the federal entity shall measure the consideration indirectly by reference to the stand-alone value of the goods or services that are required to be used internally or transferred to the purchaser or third-party beneficiary (or class of resource provider) for the consideration.
164. The current value of the non-cash consideration may vary because of the form of the consideration. If the current value of the non-cash consideration promised by a resource provider varies for reasons other than only the form of the consideration, a federal entity shall apply the requirements in paragraphs 153-154.
165. If a resource provider contributes goods or services (for example, materials, equipment or labor) to facilitate an entity's satisfaction of the binding arrangement, the federal entity shall

assess whether it obtains control of those contributed goods or services. If so, the federal entity shall account for the contributed goods or services as non-cash consideration received from the resource provider.

Consideration Payable to a Resource Provider for a Transfer of Goods or Services to Another Party



166. Consideration payable to a resource provider includes cash amounts that a federal entity pays, or expects to pay, to the resource provider (or to other parties that purchase the federal entity's goods or services from the resource provider). Consideration payable to a resource provider also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the federal entity (or to other parties that purchase the federal entity's goods or services from the resource provider).

167. A federal entity shall account for consideration payable to a resource provider as a reduction of the transaction consideration and, therefore, of revenue unless the payment to the resource provider is in exchange for a distinct good or service that the resource provider transfers to the federal entity. If the consideration payable to a resource provider includes a variable amount, a federal entity shall estimate the transaction consideration (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs above related to "Variable consideration".

168. If consideration payable to a resource provider is a payment for a distinct good or service from the resource provider, then a federal entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the resource provider exceeds the current value of the distinct good or service that the federal entity receives from the resource provider, then the federal entity shall account for such an excess as a reduction of the transaction consideration. If the federal entity cannot reasonably estimate the current value of the good or service received from the resource provider, it shall account for all of the consideration payable to the resource provider as a reduction of the transaction consideration.

169. Accordingly, if consideration payable to a resource provider is accounted for as a reduction of the transaction consideration, a federal entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

- A. The federal entity recognizes revenue for the transfer of the related goods or services to the purchaser or third-party beneficiary; and
- B. The federal entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the federal entity's customary practices.

Allocating the Transaction Consideration to Compliance Obligations



170. The objective when allocating the transaction consideration is for a federal entity to allocate the transaction consideration to each compliance obligation in the amount that depicts the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations.

171. To meet the allocation objective, a federal entity shall allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis, except as specified in paragraphs 182-184 (for allocating discounts) and paragraphs 179-181 (for allocating consideration that includes variable amounts). The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total compliance obligations satisfied.
172. Paragraphs 173-181, below, (related to Allocation Based on Stand-Alone Values, and Allocation of Variable Consideration,) do not apply if a binding arrangement has only one compliance obligation. However, paragraphs 179-181, related to Allocation of Variable Consideration, may apply if an entity promises to use or transfer a series of distinct goods or services identified as a single compliance obligation and the promised consideration includes variable amounts.

Allocation Based on Stand-Alone Values



173. To allocate the transaction consideration to each compliance obligation on a relative stand-alone value basis, a federal entity shall determine the stand-alone value at the inception of the binding arrangement of the distinct good or service underlying each compliance obligation in the binding arrangement and allocate the transaction consideration in proportion to those stand-alone values.
174. The stand-alone value is the price of a good or service that is required to be used internally or provided separately to a purchaser or third-party. The best evidence of a stand-alone value is the observable price of a good or service when the federal entity provides that good or service separately in similar circumstances and to similar resource providers. In a binding arrangement, the stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone value of that good or service.
175. If a stand-alone value is not directly observable, a federal entity shall estimate the stand-alone value at an amount that would result in the allocation of the transaction consideration meeting the allocation objective specified above. When estimating a stand-alone value, a federal entity shall consider all information (including entity-specific factors, information about the resource provider or class of resource provider, and market conditions where relevant) that is reasonably available to the federal entity. In doing so, a federal entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.
176. Suitable methods for estimating the stand-alone value of a good or service include, but are not limited to, the following:
- A. Adjusted market assessment approach—a federal entity could evaluate the market in which it uses or provides goods or services and estimate the price that other federal entities in that market would be willing to pay for those goods or services, or similar goods or services, and adjusting those prices as necessary to reflect the federal entity's costs and margins.
 - B. Expected cost approach—a federal entity could forecast its expected costs of satisfying a compliance obligation and, if applicable, add an appropriate margin for that good or service.

- C. Residual approach—a federal entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services to be used or transferred in the binding arrangement. However, a federal entity may use a residual approach to estimate, in accordance with paragraph 175, the stand-alone value of a good or service only if one of the following criteria is met:
- ✓ The federal entity uses or provides the same good or service to different parties (at or near the same time) for a broad range of amounts (i.e., the price is highly variable because a representative stand-alone value is not discernible from past transactions or other observable evidence); or
 - ✓ The federal entity has not yet determined a price for that good or service and the good or service has not previously been provided on a stand-alone basis (i.e., the price is uncertain).

177. A combination of methods may need to be used to estimate the stand-alone values of the goods or services to be used or transferred in the binding arrangement if two or more of those goods or services have highly variable or uncertain stand-alone values. For example, a federal entity may use a residual approach to estimate the aggregate stand-alone value for those goods or services with highly variable or uncertain stand-alone values and then use another method to estimate the stand-alone values of the individual goods or services relative to that estimated aggregate stand-alone value determined by the residual approach.

When a federal entity uses a combination of methods to estimate the stand-alone value of each good or service in the binding arrangement, the federal entity shall evaluate whether allocating the transaction consideration at those estimated stand-alone values would be consistent with the allocation objective and the requirements for estimating stand-alone values.

178. The determination of a stand-alone value for a compliance obligation may be challenging, particularly in situations where a federal entity (being the resource recipient) is providing goods or services to third-party beneficiaries. In these circumstances, the stand-alone value is estimated based on the amount the resource provider would need to pay in market terms to acquire the economic benefits or service potential of the goods or services provided to the third-party beneficiaries, plus an appropriate margin if applicable. Where the stand-alone value of the goods or services cannot be estimated from market information, the federal entity estimates the stand-alone value using the expected cost approach.

Allocation of Variable Consideration

179. Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement, such as either of the following:

- A. One or more, but not all, compliance obligations in the binding arrangement (for example, a bonus may be contingent on a federal entity using or transferring a promised good or service within a specified period of time); or



- B. One or more, but not all, distinct goods or services in a series of distinct goods or services that forms part of a single compliance obligation (for example, the consideration promised for the second year of a two-year cleaning service binding arrangement will increase on the basis of movements in a specified inflation index).

180. A federal entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation or to a distinct good or service that forms part of a single compliance obligation if both of the following criteria are met:

- A. The terms of a variable payment relate specifically to the federal entity's efforts to satisfy the compliance obligation or use or transfer the distinct good or service (or to a specific outcome from satisfying the compliance obligation or using or transferring the distinct good or service); and
- B. Allocating the variable amount of consideration entirely to the compliance obligation or the distinct good or service is consistent with the allocation objective when considering all of the compliance obligations and payment terms in the binding arrangement.

181. The allocation requirements shall be applied to allocate the remaining amount of the transaction consideration that does not meet the criteria in the previous paragraph.

Allocation of a Discount for a Transfer of Goods or Services to Another Party



182. A resource provider receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone values of those promised goods or services in the binding arrangement exceeds the promised consideration in a binding arrangement. Except when a federal entity has observable evidence in accordance with the below paragraph, that the entire discount relates to only one or more, but not all, compliance obligations in a binding arrangement, the entity shall allocate a discount proportionately to all compliance obligations in the binding arrangement. The proportionate allocation of the discount in those circumstances is a consequence of the federal entity allocating the transaction consideration to each compliance obligation on the basis of the relative stand-alone values of the underlying distinct goods or services.

183. A federal entity shall allocate a discount entirely to one or more, but not all, compliance obligations in the binding arrangement if all of the following criteria are met:

- A. The federal entity regularly provides each distinct good or service (or each bundle of distinct goods or services) in the binding arrangement on a stand-alone basis.
- B. The federal entity also regularly provides on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone values of the goods or services in each bundle; and
- C. The discount attributable to each bundle of goods or services described in paragraph (B), above, is substantially the same as the discount in the binding arrangement and an analysis of the goods or services in each bundle provides

observable evidence of the compliance obligation (or compliance obligations) to which the entire discount in the binding arrangement belongs.

184. If a discount is allocated entirely to one or more compliance obligations in the binding arrangement in accordance with the above paragraph, a federal entity shall allocate the discount before using the residual approach to estimate the stand-alone value of a good or service.

Changes in the Transaction Consideration



185. After the inception of the binding arrangement, the transaction consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which a federal entity expects to be entitled for satisfying its compliance obligation.
186. A federal entity shall allocate to the compliance obligations in the binding arrangement any subsequent changes in the transaction consideration on the same basis as at the inception of the binding arrangement. Consequently, a federal entity shall not reallocate the transaction consideration to reflect changes in stand-alone values after the inception of the binding arrangement. Amounts allocated to a satisfied compliance obligation shall be recognized as revenue, or as a reduction of revenue, in the period in which the transaction consideration changes.
187. A federal entity shall allocate a change in the transaction consideration entirely to one or more, but not all, compliance obligations or distinct goods or services in a series that forms part of a single compliance obligation only if the criteria in paragraph 180 on allocating variable consideration are met.
188. A federal entity shall account for a change in the transaction consideration that arises as a result of a modification to a binding arrangement in accordance with paragraphs related to “Modifications to a Binding Arrangement”. However, for a change in the transaction consideration that occurs after a modification to a binding arrangement, a federal entity shall apply the above paragraphs under this section, to allocate the change in the transaction consideration in whichever of the following ways is applicable:
- A. A federal entity shall allocate the change in the transaction consideration to the compliance obligations identified in the binding arrangement before the modification if, and to the extent that, the change in the transaction consideration is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 81 (A).
 - B. In all other cases in which the modification was not accounted for as a separate binding arrangement in accordance with paragraph 80, a federal entity shall allocate the change in the transaction consideration to the compliance obligations in the modified binding arrangement (i.e., the compliance obligations that were unsatisfied or partially unsatisfied immediately after the modification).



Example 47.9 - Allocation Based on Stand-Alone Values -Allocating a Discount

A Federal entity regularly provides common-use supplies, including Supplies A, B and C individually, to local government entities. The Federal entity establishes the following stand-alone values:

Product	Stand-alone value (AED)
Supply A	40
Supply B	55
Supply C	45
Total	140

In addition, the federal entity regularly provides Supplies B and C together for AED60.

- **Case A - Allocating a Discount to One or More Compliance Obligations.**

The federal entity enters into a binding arrangement with a local government entity to provide Supplies A, B and C in exchange for AED 100. The federal entity will satisfy the compliance obligations for each of the supplies at different points in time.

The binding arrangement includes a discount of AED 40 on the overall transaction, which would be allocated proportionately to all three compliance obligations when allocating the transaction consideration using the relative stand-alone value method. However, because the federal entity regularly provides Supplies B and C together for AED 60 and Supply A for AED 40, it has evidence that the entire discount should be allocated to the promises to transfer Supplies B and C.

If the federal entity transfers control of Supplies B and C at the same point in time, then the federal entity could, as a practical matter, account for the transfer of those supplies as a single compliance obligation. That is, the federal entity could allocate AED 60 of the transaction consideration to the single compliance obligation and recognize revenue of AED60 when Supplies B and C simultaneously transfer to the government entity.

If the binding arrangement requires the federal entity to transfer control of Supplies B and C at different points in time, then the allocated amount of AED 60 is individually allocated to the promises to transfer Supply B (standalone value of AED 55) and Supply C (stand-alone value of AED 45) as follows:

Product	Allocated transaction Consideration (AED)	
Supply B	33	(AED 55 ÷ AED 100 total standalone value × AED 60)
Supply C	27	(AED 45 ÷ AED 100 total standalone value × AED 60)
Total	60	

- **Case B - Residual Approach is Appropriate**

The federal entity enters into a binding arrangement with a local government entity to provide Supplies A, B and C as described in Case A. The binding arrangement also includes a promise to



Example 47.9 - Allocation Based on Stand-Alone Values -Allocating a Discount

transfer Supply D. Total consideration in the binding arrangement is AED 130. The stand-alone value for Supply D is highly variable because the federal entity provides Supply D to different purchasers for a broad range of amounts (AED 15 - AED 45). Consequently, the federal entity decides to estimate the stand-alone value of Supply D using the residual approach.

Before estimating the stand-alone value of Supply D using the residual approach, the department determines whether any discount should be allocated to the other compliance obligations in the binding arrangement.

As in Case A, because the federal entity regularly provides Supplies B and C together for AED 60 and Supply A for AED 40, it has observable evidence that AED 100 should be allocated to those three supplies and a AED 40 discount should be allocated to the promises to transfer Supplies B and C. Using the residual approach, the federal entity estimates the stand-alone value of Supply D to be AED 30 as follows:

Product	Stand-alone value (AED)	Method
Supply A	40	Directly observable
Supply B & C	60	Directly observable with discount
Supply D	30	Residual approach
Total	130	

The federal entity observes that the resulting AED 30 allocated to Supply D is within the range of its observable prices (AED 15- AED 45).

- **Case C - Residual Approach is Inappropriate**

The same facts as in Case B apply to Case C except the transaction consideration is AED105 instead of AED130. Consequently, the application of the residual approach would result in a stand-alone value of AED 5 for Supply D (AED 105 transaction consideration less AED 100 allocated to Supplies A, B and C). The federal entity concludes that AED 5 would not faithfully depict the amount of consideration to which it expects to be entitled in exchange for satisfying its compliance obligation to transfer Supply D, because AED5 does not approximate the stand-alone value of Supply D, which ranges from AED 15 - AED 45. Consequently, the federal entity reviews its observable data, including procurement and cost recovery reports, to estimate the stand-alone value of Supply D using another suitable method. The federal entity allocates the transaction consideration of AED 105 to Supplies A, B, C and D using the relative stand-alone values of those products.

Other Assets from Revenue Transactions with Binding Arrangement Costs

Incremental Costs of Obtaining a Binding Arrangement

189. A federal entity shall recognize as an asset the incremental costs of obtaining a binding arrangement if the entity expects to recover those costs.



190. The incremental costs of obtaining a binding arrangement are those costs that a federal entity incurs to obtain a binding arrangement that it would not have incurred if the binding arrangement had not been obtained (for example, a sales commission).
191. Costs to obtain a binding arrangement that would have been incurred regardless of whether the binding arrangement was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the resource provider regardless of whether the binding arrangement is obtained.
192. As a practical expedient, a federal entity may recognize the incremental costs of obtaining a binding arrangement as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

Costs to Fulfill a Binding Arrangement



193. If the costs incurred in fulfilling a binding arrangement are not within the scope of another Standard (for example, FGAAS 12, Inventories, FGAAS 31, or FGAAS 45), a federal entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:
- A. The costs relate directly to a binding arrangement or to an anticipated binding arrangement that the federal entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing binding arrangement or costs of designing an asset to be transferred under a specific binding arrangement that has not yet been approved);
 - B. The costs generate or enhance resources of the federal entity that will be used in satisfying (or in continuing to satisfy) compliance obligations in the future; and
 - C. The costs are expected to be recovered.
194. For costs incurred in fulfilling a binding arrangement that are within the scope of another Standard, a federal entity shall account for those costs in accordance with those other Standards.
195. Costs that relate directly to a binding arrangement (or a specific anticipated binding arrangement) include any of the following:
- A. Direct labor (for example, salaries and wages of employees who provide the promised services directly to a purchaser or third-party beneficiary).
 - B. Direct materials (for example, supplies used in providing the promised services to a purchaser or third-party beneficiary).
 - C. Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools, equipment and right-of-use assets used in fulfilling the binding arrangement).
 - D. Costs that are explicitly chargeable to the resource provider under the binding arrangement; and

- E. Other costs that are incurred only because a federal entity entered into the binding arrangement (for example, payments to subcontractors).

196. A federal entity shall recognize the following costs as expenses when incurred:

- A. General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement).
- B. Costs of wasted materials, labor or other resources to fulfill the binding arrangement that were not reflected in the price of the binding arrangement.
- C. Costs that relate to satisfied compliance obligations (or partially satisfied compliance obligations) in the binding arrangement (i.e., costs that relate to past fulfillment); and
- D. Costs for which a federal entity cannot distinguish whether the costs relate to unsatisfied compliance obligations or to satisfied compliance obligations (or partially satisfied compliance obligations).

Amortization and Impairment



197. An asset recognized shall be amortized on a systematic basis that is consistent with the satisfaction of the compliance obligation to which the asset relates. The asset may relate to promises to be satisfied under a specific anticipated binding arrangement (as described in paragraph 193 (A)).

198. A federal entity shall update the amortization to reflect a significant change in the federal entity's expected timing of the satisfaction of the compliance obligation to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with FGAAS 3.

199. A federal entity shall recognize an impairment loss in surplus or deficit to the extent that the carrying amount of an asset recognized in accordance with paragraph 189 or 193 exceeds:

- A. The remaining amount of consideration that the federal entity expects to receive for the satisfaction of the compliance obligations to which the asset relates; less.
- B. The costs that relate directly to satisfying the compliance obligations and that have not been recognized as expenses.

200. For the purposes of applying the above previous paragraph to determine the amount of consideration that a federal entity expects to receive, a federal entity shall use the principles for determining the transaction consideration (except for the requirements in the paragraphs on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the resource provider's credit risk.

201. Before a federal entity recognizes an impairment loss for an asset recognized, the federal entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, FGAAS 12, FGAAS 31, and FGAAS 45). After applying the impairment test, a federal entity shall include the resulting carrying amount of the asset recognized, in the carrying amount of the cash-generating unit

to which it belongs for the purpose of applying FGAAS 26, Impairment of Cash-Generating Assets to that cash-generating unit.

202. A federal entity shall recognize in surplus or deficit a reversal of some or all of an impairment loss previously recognized in accordance with paragraph 199 when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortization) if no impairment loss had been recognized previously.

Application of Principles to Specific Transactions



203. Federal government entities receive various types of transfers. Transfers may or may not arise from a binding arrangement. Subject to paragraph 207, a federal entity shall recognize an asset in respect of transfer revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Capital Transfers



204. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where a resource provider provides cash or another asset with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity. A capital transfer imposes at least one compliance obligation on the entity.
205. A federal entity shall recognize revenue as it satisfies its compliance obligations in its capital transfer transaction by applying paragraphs 108-125. A federal entity shall separately determine whether any inflow of resources from a capital transfer is to be recognized as an asset by applying paragraph 100, and whether its compliance obligation is to be recognized as a liability by applying paragraphs 101- 107. The carrying amount of any such liability is reduced as revenue is recognized.
206. Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition. The federal entity determines whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset by assessing whether the transaction consideration is associated with the operation of the asset, once acquired or constructed. Any compliance obligations related to the operation of the asset would be accounted for in accordance with the requirements of this Standard.

Services In-Kind



207. A federal entity may, but is not required to, recognize services in-kind as revenue and as an asset.
208. Although recognition of services in-kind is not required by this Standard, federal entities are strongly encouraged to disclose services in-kind received particularly if they are integral to a federal entity's operations.
209. Services in-kind are services provided by individuals to government entities for no consideration. Some services in-kind meet the definition of an asset because the federal

entity controls a resource from which future economic benefits or service potential are expected to flow to the federal entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the federal entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

210. Federal government entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest. For example:

- A. Technical assistance from other governments or international organizations.
- B. Public hospitals may receive the services of volunteers; and
- C. Public schools may receive voluntary services from parents as teachers' aides or as board members.

211. Some services in-kind do not meet the definition of an asset because the federal entity has insufficient control over the services provided. In other circumstances, the federal entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset.

212. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. However, strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some federal entities, the services provided by volunteers are not material in amount but may be material by nature.

Advance Receipts of Transfers



213. Where a federal entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset.

214. The federal entity will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts. This liability (advance receipt) may be recognized as a liability (deferred revenue), in accordance with paragraphs 101-107, when the event that makes the transfer arrangement binding occurs and is subsequently extinguished when (or as) all compliance obligations under the agreement are satisfied.

Concessionary Loans



215. Concessionary loans are loans received by a federal entity at below-market terms. The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with FGAAS 41. A federal entity considers whether any difference between the

transaction consideration (loan proceeds) and the fair value of the loan on initial recognition (see FGAAS 41) is revenue that should be accounted for in accordance with this Standard.

216. Where a federal entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, a federal entity recognizes the difference as revenue, except if a compliance obligation exists, for example, where specific requirements are imposed on the transferred assets by the federal entity result in a compliance obligation.

217. Where a compliance obligation exists, the federal entity considers if it gives rise to the existence and recognition of a liability. As the federal entity satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognized.

Measurement of Transferred Assets



218. transferred assets are measured at their transaction consideration as at the date of recognition. When a federal entity receives consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant FGAAS;

- A. Assets such as inventories, investment property, and intangible assets acquired through revenue transactions are to be initially measured at their fair value at the acquisition date.
- B. Property, plant, and equipment assets acquired through revenue transactions are to be measured at their deemed cost as at the acquisition date. The primary objective for which a federal entity holds property, plant, and equipment determines the current value measurement basis used to determine deemed cost (where such assets held for their operational capacity are measured at current operational value, and assets held for their financial capacity are measured at fair value); and
- C. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument are to be measured at their transaction consideration as at the acquisition date.

Debt Forgiveness and Assumptions of Liabilities



219. Stakeholders (lenders or creditors) will sometimes waive their right to collect a debt owed by a federal government entity, effectively canceling the debt. In circumstances when a creditor forgives a liability, the federal entity decreases the carrying amount of the existing liability and recognizes an increase in net assets.

220. Federal Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

221. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines



222. Fines are economic benefits or service potential received or receivable by a federal government entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws and/or regulations.
223. Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.
224. where a federal entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting federal entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the federal entity.

Gifts and Donations, including Goods In-kind



225. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from requirements. (The resource provider may be a government entity, an international entity, an establishment or an individual). For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. The making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits or service potential flowing to the federal entity.
226. Recognition of gifts or donations of services in-kind are addressed in paragraphs 207-212. Gifts and donations other than services in-kind and goods in-kind are recognized as assets in accordance with paragraphs 31-38, and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.
227. On initial recognition, gifts and donations (including goods in-kind) are measured at their transaction consideration as at the acquisition date, in accordance with paragraph 43.

Presentation

Display



228. When either party to a binding arrangement has performed, a federal entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the federal entity's performance and the resource provider's transfer of consideration. A federal entity shall present any unconditional rights to consideration separately as a receivable.
229. If a resource provider transfers cash or another asset, or a federal entity has a right to consideration that is unconditional (i.e., a receivable), before the federal entity satisfies its compliance obligation, the federal entity shall present the binding arrangement as a binding arrangement liability when the transfer of consideration is made or is due (whichever is

earlier). A binding arrangement liability is a federal entity's obligation to satisfy a compliance obligation for which the federal entity has received consideration (or an amount of an unconditional transfer of consideration is due) from the resource provider.

230. If a federal entity performs by satisfying a compliance obligation before the transfer of consideration is received or before the unconditional transfer of consideration is due, the federal entity shall present the binding arrangement as a binding arrangement asset, excluding any amounts presented as a receivable. A binding arrangement asset is a federal entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time.
231. A federal entity shall assess a binding arrangement asset for impairment in accordance with FGAAS 41. An impairment of a binding arrangement asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of FGAAS 41.
232. A receivable is a federal entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before consideration is due. For example, a federal entity will recognize a receivable if it has a present right to a transfer even though that amount may be subject to refund in the future. In accordance with paragraph 44, a federal entity shall subsequently measure a receivable in accordance with FGAAS 41. Upon initial recognition of a receivable, any difference between the measurement of the receivable in accordance with FGAAS 41 and the corresponding amount of revenue recognized shall be presented as an expense (for example, as an impairment loss).
233. This Standard uses the terms "binding arrangement asset" and "binding arrangement liability" but does not prohibit a federal entity from using alternative descriptions in the statement of financial position for those items. If a federal entity uses an alternative description for a binding arrangement asset, the federal entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.



Example 47.10 - Presentation - Binding Arrangement Liability and Receivable

- **Case (A) - Cancellable Binding Arrangement:**

On January 1, 20X9, federal entity "A" enters into a binding arrangement that is cancellable to transfer a product to federal entity "B" on March 31, 2029. The binding arrangement requires federal entity "B" to pay consideration of AED 1,000 in advance on January 31, 2029. federal entity "B" pays the consideration on March 1, 2029. Federal entity "A" transfers the product on March 31, 2029. The following journal entries illustrate how federal entity "A" accounts for the binding arrangement:

→ Federal entity "A" receives the consideration of AED 1,000 on March 1, 2029 (the consideration is received in advance of performance):

Description	Debit	Credit
Cash and cash equivalent	1,000	

Example 47.10 - Presentation - Binding Arrangement Liability and Receivable

Binding Arrangement Liability		1,000

→ Federal entity "A" satisfies the compliance obligation on March 31, 2029:

Description	Debit	Credit
Binding Arrangement Liability	1,000	
Revenue		1,000

- **Case (B) - Non-Cancellable Binding Arrangement:**

The same facts as in Case (A) apply to Case (B) except that the binding arrangement is non-cancellable and the advance transfer on January 31, 2029, is required regardless of whether federal entity "A" has started to satisfy its compliance obligation. The following journal entries illustrate how federal entity "A" accounts for the binding arrangement:

→ The amount of consideration is due on January 31, 2029 (which is when federal entity "A" recognizes a receivable because it has an unconditional and enforceable right to consideration):

Description	Debit	Credit
Receivable	1,000	
Binding Arrangement Liability		1,000

→ Federal entity "A" receives the consideration on March 1, 2029:

Description	Debit	Credit
Cash and cash equivalent	1,000	
Receivable		1,000

→ Federal entity "A" satisfies the compliance obligation on March 31, 2029:

Description	Debit	Credit
Binding Arrangement Liability	1,000	
Revenue		1,000

If federal entity "A" issued the invoice before January 31, 2029 (the due date of the consideration), federal entity "A" would not present the Receivable and the Binding Arrangement Liability on a gross basis in the statement of financial position because federal entity "A" does not yet have a right to consideration that is unconditional.

Disclosure



234. The objective of the disclosure requirements is for a federal entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions. To achieve that objective, a federal entity shall disclose qualitative and quantitative information about all of the following:

- A. Its revenues from transactions without binding arrangements (see paragraphs 241-245).

- B. Its revenues from transactions with binding arrangements (see paragraphs 246-259).
- C. The significant judgments, and changes in the judgments, made in applying this Standard to those binding arrangements (see paragraphs 260-262); and
- D. Any assets recognized from the costs to obtain or fulfill a binding arrangement with a resource provider in accordance with paragraph 189 or 193 (see paragraphs 263-264).

235. A federal entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A federal entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

236. A federal entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

237. In making the disclosures required by this Standard, a federal entity shall consider the requirements of FGAAS 1, which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.

238. A federal entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:

- A. The amount of revenue from transactions recognized during the period, showing separately, and by major classes:
 - ✓ Taxes.
 - ✓ Other compulsory contributions and levies.
 - ✓ Transfers; and
 - ✓ Compliance obligations in a binding arrangement.
- B. The number of receivables recognized at the reporting date in respect of revenue.
- C. The amount of liabilities recognized at the reporting date in respect of transferred assets subject to compliance obligations.
- D. The amount of liabilities recognized at the reporting date in respect of concessionary loans that are subject to requirements on transferred assets.
- E. The existence and amounts of any advance receipts in respect of transactions; and
- F. The amount of any liabilities forgiven.

239. A federal entity shall disclose in the notes to the general-purpose financial statements:

- A. The accounting policies adopted for the recognition of revenue.

- B. The judgments, and changes in the judgments, made in applying this Standard that significantly affect the determination of the amount and timing of revenue.
- C. For major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured.
- D. For major classes of taxation revenue and revenue from other compulsory contributions and levies that the federal entity cannot measure reliably during the period in which the taxable event or equivalent event for other compulsory contributions and levies occurs, information about the nature of the tax, or other compulsory contribution or levy.
- E. The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and
- F. Qualitative and quantitative information about services in-kind that have been recognized.

240. A federal entity may have a revenue transaction where the federal entity is compelled to satisfy an obligation for or impose a cost on the counterparty in the transaction, and the face value of the revenue transaction may not always be collectible. This may occur when the entity is compelled by way of legislation, authority, legal process, or other mechanisms, and the counterparty may not have the ability or intention to pay. Examples of such transactions include revenue from taxes or fines without binding arrangements, or revenue from satisfying a compliance obligation by providing goods or services to a third-party beneficiary in a binding arrangement. The entity shall disclose the following:

- A. A description of the legislation or decision which compels a party in the revenue transaction to satisfy its obligation to the federal entity in the revenue transaction.
- B. The amount of revenue from these transactions that was recognized after application of paragraphs 38 and 135 of this Standard, or the amount of revenue recognized after consideration of an implicit price concession from the application of paragraph 145.
- C. The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable, or as the amount from these transactions that was not recognized as revenue as it was considered to be an implicit price concession; and
- D. If the transaction consideration has been reduced after consideration of an implicit price concession from the application of paragraph 145, a federal entity shall disclose the following:
 - ✓ The amount from these transactions that was recognized as revenue after identification of the implicit price concession; and
 - ✓ The amount from these transactions that was not recognized as revenue, as it was considered an implicit price concession.





Example 47.11 - Disclosure of Services In-kind not Recognized

A federal entity's (Medical Entity) accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The federal entity enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the federal entity environment, and to promote nursing as a career. Volunteers must be at least 18 years of age and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a medical orientation training session. Many universities permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The federal entity does not pay the volunteers, nor would it engage employees to perform volunteers' work if volunteers were not available.

The federal entity analyzes the agreements it has with the volunteers and concludes the following:

- At least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer and that it receives service potential from the volunteers, satisfying the definition of an asset.
- However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the federal entity or in other health or community care facilities in the country.
- The federal entity does not recognize the services in-kind provided by the volunteers.

The federal entity discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Specific Disclosure for Revenue without Binding Arrangements



241. In many cases a federal entity will be able to reliably measure assets and revenue arising from taxation and other compulsory contributions and levies transactions, using, for example, statistical models. However, there may be exceptional circumstances where a federal entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has or have elapsed since the taxable event or equivalent event for other compulsory contributions and levies occurred. In these cases, the federal entity makes disclosures about the nature of major classes of taxation or other compulsory contributions and levies that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or equivalent event for other compulsory contributions and levies occurs.
242. A federal entity is required to disclose the existence of advance receipts. These liabilities carry the risk that the federal entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding.
243. A federal entity is required to make disclosures about the nature and type of major classes of bequests, gifts, and donations it has received. These inflows of resources are received at the

discretion of the resource provider, which exposes the federal entity to the risk that, in future periods, such sources of resources may change significantly.

244. Federal entities that do not recognize services in-kind on the face of the general purpose financial statements are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if those services in-kind received are integral to the operations of the federal entity. The extent to which a federal entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.
245. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, federal entities may elect to recognize these services in-kind and measure them at their fair value. The previous above paragraph strongly encourages an entity to make qualitative disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the federal entity's objectives during the reporting period, and (b) the federal entity's dependence on such services for the achievement of its objectives in the future.

Specific Disclosure for Revenue with Binding Arrangements



246. A federal entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of financial performance in accordance with other Standards:
- A. Revenue recognized from binding arrangements with compliance obligations, separately from its other sources of revenue; and
 - B. Any impairment losses recognized (in accordance with FGAAS 41) on any receivables or binding arrangement assets arising from a federal entity's binding arrangements, which the federal entity shall disclose separately from impairment losses from other binding arrangements.

247. Compliance obligations impose limits on the use of assets, which impacts the operations of the federal entity. Disclosure of the amount of liabilities recognized in respect of compliance obligations assists users in making judgments about the ability of the federal entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the amount of liabilities recognized at the reporting date in respect of transferred assets subject to compliance obligations.

Disaggregation of Revenue



248. A federal entity shall disaggregate revenue recognized from binding arrangements into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.
249. Consequently, the extent to which a federal entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the federal entity's binding arrangements. Some federal entities may need to use more than one

type of category to meet the objective in the paragraph above for disaggregating revenue. Other federal entities may meet the objective by using only one type of category to disaggregate revenue.

250. When selecting the type of category (or categories) to use to disaggregate revenue, a federal entity shall consider how information about the federal entity's revenue has been presented for other purposes, including all of the following:

- A. Disclosures presented outside the financial statements (for example, annual reports or stakeholder presentations).
- B. Information regularly reviewed for evaluating the financial performance of segments; and
- C. Other information that is similar to the types of information identified in paragraphs (A) and (B) and that is used by the federal entity or users of the federal entity's financial statements to evaluate the federal entity's financial performance or make resource allocation decisions.

251. Examples of categories that might be appropriate include, but are not limited to, the following:

- A. Type of compliance obligation.
- B. Geographical region (for example, country or region).
- C. Market or type of purchaser resource provider (for example, government and non-government resource providers).
- D. Type of binding arrangement (for example, fixed-price and time-and-materials binding arrangements).
- E. Duration of the binding arrangement (for example, short-term and long-term binding arrangements).
- F. Timing of transfer of goods or services (for example, revenue from goods or services transferred to purchasers or third-party beneficiaries at a point in time and revenue from goods or services transferred over time).
- G. Sales channels (for example, goods provided directly to purchasers or third-party beneficiaries and goods provided through intermediaries); and
- H. Revenue earned from the provision of goods or services to third-party beneficiaries.

252. In addition, a federal entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment.

Binding Arrangement Balances



253. An entity shall disclose all of the following:

- A. The opening and closing balances of receivables, binding arrangement assets and binding arrangement liabilities from binding arrangements, if not otherwise separately presented or disclosed.
- B. Revenue recognized in the reporting period that was included in the binding arrangement liability balance at the beginning of the period; and
- C. Revenue recognized in the reporting period from compliance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction consideration).

254. A federal entity shall explain how the timing of satisfaction of its compliance obligations relates to the typical timing of payment and the effect that those factors have on the binding arrangement asset and the binding arrangement liability balances. The explanation provided may use qualitative information.

255. A federal entity shall provide an explanation of the significant changes in the binding arrangement asset and the binding arrangement liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the federal entity's balances of binding arrangement assets and binding arrangement liabilities include any of the following:

- A. Changes due to public sector combinations.
- B. Cumulative catch-up adjustments to revenue that affect the corresponding binding arrangement asset or binding arrangement liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction consideration (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a modification to a binding arrangement;
- C. Impairment of a binding arrangement asset.
- D. A change in the time frame for a right to consideration to become unconditional (i.e., for a binding arrangement asset to be reclassified to a receivable); and
- E. A change in the time frame for a compliance obligation to be satisfied (i.e., for the recognition of revenue arising from a binding arrangement liability).

Compliance Obligations



256. A federal entity shall disclose information about its compliance obligations in binding arrangements, including a description of all of the following:

- A. When the federal entity typically satisfies its compliance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when compliance obligations are satisfied in a bill-and-hold arrangement.
- B. The significant payment terms (for example, when payment is typically due, whether the binding arrangement has a significant financing component, whether

the consideration amount is variable and whether the estimate of variable consideration is typically constrained).

- C. The nature of the compliance obligations the federal entity has promised to satisfy, highlighting any compliance obligations to arrange for another party to incur compliance obligations (i.e., if the entity is acting as an agent).
- D. Obligations for returns, refunds and other similar obligations; and
- E. Types of warranties and related obligations.

Transaction Consideration Allocated to the Remaining Compliance Obligations



257. A federal entity shall disclose the following information about its remaining compliance obligations:

- A. The aggregate amount of the transaction consideration allocated to the compliance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and
- B. An explanation of when the federal entity expects to recognize as revenue the amount disclosed in accordance with the previous paragraph (A), which the federal entity shall disclose in either of the following ways:
 - ✓ On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining compliance obligations; or
 - ✓ By using qualitative information.

258. As a practical expedient, a federal entity need not disclose the information in the above previous paragraph for a compliance obligation as long as the compliance obligation is part of a binding arrangement that has an original expected duration of one year or less.

259. A federal entity shall explain qualitatively whether it is applying the practical expedient in the previous paragraph and whether any consideration from binding arrangements is not included in the transaction consideration and, therefore, not included in the information disclosed in accordance with paragraph 257. For example, an estimate of the transaction consideration would not include any estimated amounts of variable consideration that are constrained.

Significant Judgments in the Application of this Standard

Determining the Timing of Satisfaction of Compliance Obligations



260. For compliance obligations that a federal entity satisfies over time, an entity shall disclose both of the following:

- A. The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied); and
- B. An explanation of why the methods used provide a faithful depiction of the use or transfer of goods or services.

261. For compliance obligations satisfied at a point in time, a federal entity shall disclose the significant judgments made in evaluating when a compliance obligation is satisfied.

Determining the Transaction Consideration and the Amounts Allocated to Compliance Obligations



262. A federal entity shall disclose information about the methods, inputs and assumptions used for all of the following:

- A. Determining the transaction consideration, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration.
- B. Assessing whether an estimate of variable consideration is constrained.
- C. Allocating the transaction consideration, including estimating stand-alone values of promised goods or services, and allocating discounts and variable consideration to a specific part of the binding arrangement (if applicable); and
- D. Measuring obligations for returns, refunds and other similar obligations.

Assets Recognized from the Costs to Obtain or Fulfill a Binding Arrangement with a Resource Provider



263. A federal entity shall describe both of the following:

- A. The judgments made in determining the amount of the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 189 or 193); and
- B. The method it uses to determine the amortization for each reporting period.

264. A federal entity shall disclose all of the following:

- A. The closing balances of assets recognized from the costs incurred to obtain or fulfill a binding arrangement with a resource provider (in accordance with paragraph 189 or 193), by main category of asset (for example, costs to obtain binding arrangements with resource providers, pre-binding arrangement costs and setup costs); and
- B. The amount of amortization and any impairment losses recognized in the reporting period.

Practical Expedients



265. The federal entity shall disclose the use of the practical expedient in either paragraph 159 (about the existence of a significant financing component) or paragraph 192 (about the incremental costs of obtaining a binding arrangement).

Transitional Provisions



266. For the purposes of the transition requirements in paragraphs below:

- A. The date of initial application is the start of the reporting period in which a federal entity first applies this Standard; and
- B. A completed binding arrangement is a binding arrangement for which:
 - ✓ The federal entity has satisfied all of the conditions identified in accordance with FGAAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers); or
 - ✓ The federal entity has satisfied all of its promises identified in accordance with FGAAS 9, Revenue from Exchange Transactions and FGAAS 11, Construction Contracts.

267. A federal entity shall apply this Standard using the following method:

- A. Retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application in accordance with paragraphs below.

268. If a federal entity elects to apply this Standard retrospectively with the cumulative effect -, the federal entity shall recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of accumulated surplus (or other component of net assets/equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, a federal entity may elect to apply this Standard retrospectively only to binding arrangements that are not completed binding arrangements at the date of initial application.

269. A federal entity applying this Standard retrospectively with the cumulative effect may also use the practical expedient described in the next paragraph, either:

- A. For all modifications to a binding arrangement that occur before the beginning of the earliest period presented; or
- B. For all modifications to a binding arrangement that occur before the date of initial application.

If a federal entity uses this practical expedient, the federal entity shall apply the expedient consistently to all binding arrangements and the entity shall disclose all of the following information:

- A. The expedients that have been used; and
- B. To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

270. For binding arrangements that were modified before the beginning of the earliest period presented, a federal entity need not retrospectively restate the binding arrangement for those modifications to a binding arrangement. Instead, a federal entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

- Identifying the satisfied and unsatisfied compliance obligations.
- Determining the transaction consideration; and

- Allocating the transaction consideration to the satisfied and unsatisfied compliance obligations.

271. For reporting periods that include the date of initial application, a federal entity shall provide both of the following additional disclosures if this Standard is applied retrospectively with the cumulative effect:

- A. The amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to FGAAS 9, FGAAS 11, and FGAAS 23; and
- B. An explanation of the reasons for significant changes identified.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026.

Technical References

IPSAS 47 - Revenue



Standard 48 - Transfer Expenses

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to Transfer Expenses of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version			

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to Transfer Expenses in addition to detailing the manner in which all such Transfer Expenses are to be recognised, measured, presented and disclosed in financial statements.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

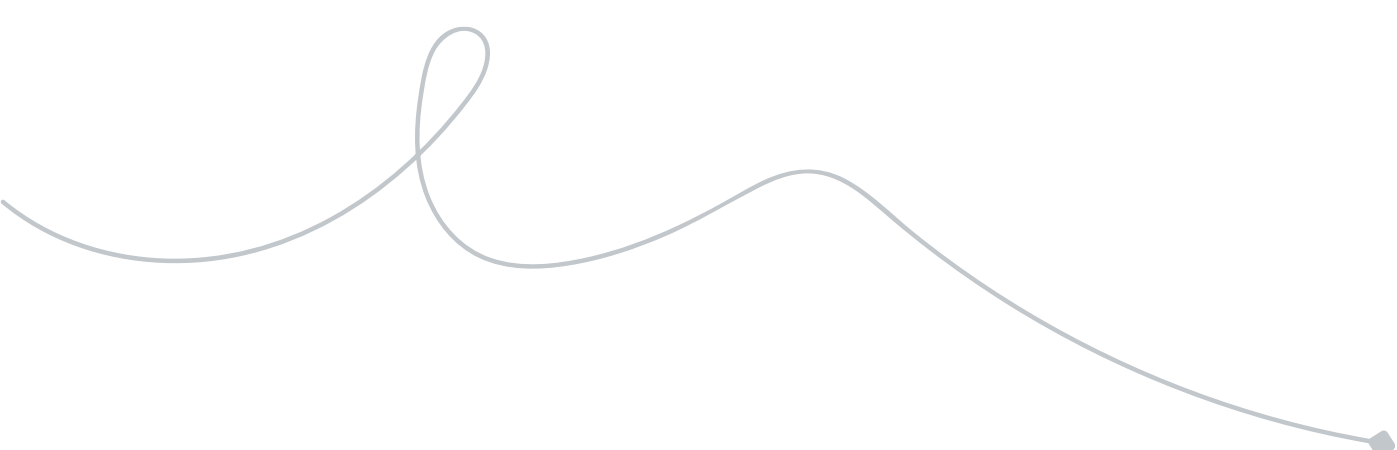
Definitions



The following terms are used in this Standard with the meanings specified:

Term	Definition
A capital transfer	Is an outflow of cash or another asset that arises from a binding arrangement with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient.
The stand-alone consideration	Is the amount that a federal entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.
The transfer consideration	The transfer consideration represents the total amount of resources' which a federal entity expects to transfer.
A transfer expense	Is an expense arising from a transaction, other than taxes, in which a federal entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return. A transfer expense as an expense arising from a transaction, other than taxes, in which the transfer provider (the federal entity) provides a good, service, or other asset to another entity (the transfer recipient, which may be a federal entity, a public sector entity, a not-for-profit organization, or an individual) without directly receiving any good, service, or other asset in return.
A transfer obligation	Is a federal entity's obligation in a binding arrangement to transfer resources in a specified manner. This Standard refers to the federal entity's obligations from a binding arrangement to transfer resources as transfer obligations.
A transfer obligation liability	Is the liability recognized for the existence of one or more transfer obligations arising from a binding arrangement.
A transfer provider	Is a federal entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.
A transfer recipient	Is an entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity. While the transfer recipient does not provide any good or service to the federal entity, it may provide a good or service to a third-party

Term	Definition
	beneficiary in accordance with a binding arrangement between the transfer recipient and the federal entity. "AG-8"
A transfer right	Is a federal entity's enforceable right to have the transfer recipient satisfy its obligation in a manner as specified in a binding arrangement or face the consequences as specified in the binding arrangement.
A transfer right asset	Is the asset recognized for the existence of one or more transfer rights arising from a binding arrangement. A transfer right asset is not a good, service, or other asset to be directly received by the federal entity in return for transferring resources to the transfer recipient because: A. A transfer right asset is not a good or service. B. The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity. C. The transfer right asset is not consideration to be provided by the transfer recipient in return for the federal entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.
Binding Arrangement	an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement.



Standard 48 - Transfer Expenses

Standard 48 - Transfer Expenses

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 48 (IPSAS 48). It is worth mentioning that certain text of standard 48 have been rephrased in line with the requirements of UAE Federal Government.

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Objective

1. The objective of this Standard is to establish the principles that a transfer provider (a federal entity) shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions.
2. To meet the objective above, this Standard:
 - A. Requires a federal entity to consider the terms of the transaction and all relevant facts and circumstances to determine the type of transfer expense transaction; and
 - B. Sets out the accounting requirements for the transfer expense transaction.

Scope



3. This Standard shall apply to all federal entities covered by the Manual of Federal Government Accrual Accounting Standards as detailed in its introduction. A federal entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers.
4. This Standard does not apply to:
 - A. Leases as defined in FGAAS 43, Leases.
 - B. Contributions from, and distributions to, owners.
 - C. Service concession arrangements as defined in FGAAS 32, Service Concession Arrangements: Grantor.
 - D. Employee benefits as defined in FGAAS 39, Employee Benefits.
 - E. Financial instruments, including concessionary loans, as defined in FGAAS 41, Financial Instruments.
 - F. Social benefits as defined in FGAAS 42, Social Benefits.
5. A binding arrangement may be partially within the scope of this Standard and partially within the scope of other Standards:
 - A. If the other Standards specify how to separately recognize and/or initially measure one or more parts of the binding arrangement, then a federal entity shall first apply the separation and/or measurement requirements in those Standards. A federal entity shall exclude from the transfer consideration or other transfer of resources the amount of the part (or parts) of the binding arrangement that are initially measured in accordance with other Standards and shall apply paragraphs 29-81 to account for the amount of the transfer consideration or other transfer of resources that remains (if any); and

- B. If the other Standards do not specify how to separate and/or initially measure one or more parts of the binding arrangement, then the federal entity shall apply this Standard to the entirety of the binding arrangement.
6. The scope of this Standard is focused on establishing principles and requirements when accounting for transfer expenses, where a federal entity provides a good, service, or other asset to another entity without directly receiving any good, service, or other asset in return.
7. This Standard does not address transactions where a federal entity receives any good, service, or other asset in return for the good, service, or other asset that it transfers to another party. Such transactions are accounted for in accordance with other Standards.



Example 48.1 - Transfer Where the Other Party Provides Goods and Services

The Ministry of Finance" enters a binding arrangement to purchase a vehicle from a dealer for AED 30,000. Under the terms of the binding arrangement, the dealer will also provide maintenance services for three years after the vehicle has been delivered.

- **Case (A) - Vehicle is Provided to Ministry of Finance:**

The binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the Ministry of Finance.

The binding arrangement does not give rise to a transfer expense of the Ministry of Finance, as the Ministry of Finance directly receives the vehicle and the maintenance services in return for providing the consideration of AED 30,000. Consequently, the binding arrangement is outside the scope of FGAAS 48. The Ministry of Finance applies FGAAS 45, Property, Plant, and Equipment, in accounting for the purchase of the vehicle and subsequent costs incurred for repairs-and maintenance.

- **Case (B) - Vehicle is Provided to a national organization:**

In this separate scenario, the binding arrangement requires the dealer to transfer the vehicle, and provide the subsequent maintenance services, to the National organization (a third-party beneficiary) rather than to the Ministry of Finance.

- A. The binding arrangement gives rise to a transfer expense of the Ministry of Finance, as the Ministry of Finance, transfers the consideration of AED 30,000 to the dealer without directly receiving any goods or services in return. (The vehicle and maintenance services are transferred to the National organization). The Ministry of Finance (the transfer provider) applies FGAAS 48 in accounting for the transfer, as it arises from a binding arrangement.

Example 48.2 - Research Grants



A federal entity enters a binding arrangement with a university whereby the federal entity will provide the university with a grant of AED 25 million to undertake research into the effects of restrictive diets on general health.

- **Case (A) - The Federal Entity Controls Research:**

The binding arrangement includes a requirement that the university will transfer the results of the research to the federal entity, including rights to any intellectual property and/or patents created.

The binding arrangement does not give rise to a transfer expense of the federal entity, as the federal entity directly receives the results of the research (including rights to any intellectual property and/or patents) from the research in return for providing the grant as consideration. Consequently, the binding arrangement is outside the scope of FGAAS 48.

The federal entity applies FGAAS 31, Intangible Assets, in accounting for the binding arrangement.

- **Case (B) - University Controls Research:**

The binding arrangement does not require the university to transfer the results of the research to the federal entity. Rather, the university retains control of the research, including rights to any intellectual property and/or patents created.

- C. The binding arrangement gives rise to a transfer expense of the federal entity, as the federal entity transfers the grant (consideration) to the university without directly receiving any goods or services in return. The federal entity (the transfer provider) applies FGAAS 48 in accounting for the transaction, as it arises from a binding arrangement.

Identifying the Transfer Expense Transaction



8. A federal entity accounts for a transfer based on whether or not the transaction results in the recognition of an asset. When a transfer results in the recognition of an asset, the asset is derecognized when (or as) the federal entity's rights from the transfer arrangement are extinguished. For transfers which do not result in the recognition of an asset, a transfer expense is recognized:
 - A. When the federal entity loses control of the transferred resources; or
 - B. When the federal entity has incurred an obligation to transfer resources and recognizes a liability for the obligation.

The identification of whether the transaction arises from a binding arrangement impacts this determination, as the rights and obligations from a binding arrangement provide inputs into the assessment of the asset recognition criteria and whether an obligation to transfer resources exists.

9. A federal entity will apply the guidance on recognition and measurement in this Standard as follows:

- A. Transfer expenses from transactions without binding arrangements (hereby referred to as transfer expenses without binding arrangements) are accounted for using paragraphs 29-32; and
 - B. Transfer expenses from transactions with binding arrangements (hereby referred to as transfer expenses with binding arrangements) are accounted for using paragraphs 33-81.
10. This Standard specifies the accounting for an individual transfer. However, as a practical expedient, a federal entity shall apply this Standard to a portfolio of transfers with similar characteristics if the federal entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, a federal entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Binding Arrangements and Enforceability



11. A binding arrangement is an arrangement that confers both enforceable rights and obligations on the parties to the arrangement. Each party in the binding arrangement willingly enters into the arrangement and is able to enforce its respective rights and obligations in the arrangement. This Standard refers to the federal entity's obligations as transfer obligations. The federal entity also has rights to have the transfer recipient satisfy its obligations. This Standard refers to these rights as transfer rights.
12. For an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the federal entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations.

Example 48.3 - Identifying Whether a Binding Arrangement Exists

A Federal entity is required to undertake various social programs; however, it has insufficient resources to undertake these programs without assistance. The Federal Government decides to transfer AED 10 million of funds to the Federal entity to assist with its social programs. The details of the transfer are documented in a "funding agreement." However, the agreement only results in an obligation for the Federal Government to transfer funds and does not provide the Federal Government with any rights to compel Federal entity to act in a specific manner. Since the agreement does not confer both rights and obligations to the Federal Government, it is not a binding arrangement. the Federal Government shall apply the accounting principles related to "Transfer Expenses from **Transactions without Binding Arrangements**" in paragraphs 29-32 of this standard to account for the transfer.

13. In determining whether an arrangement is enforceable, the federal entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on a federal entity's ability to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations.
14. A binding arrangement includes both rights and obligations that are enforceable for two or more of the involved parties. Each party's enforceable right and obligation within the binding arrangement are interdependent and inseparable.
15. Binding arrangements can be evidenced in several ways. A binding arrangement can be written, oral or implied by a federal entity's or a sector's customary practices. The practices and processes for establishing binding arrangements with transfer recipients vary across sectors, and entities. In addition, they may vary within a federal entity (for example, they may depend on the class of transfer recipient or third-party beneficiary, or the nature of the promised goods or services). A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. The binding arrangement may arise from legal contracts or through other equivalent means such as statutory mechanisms (for example, through legislative or executive authority and/or cabinet or ministerial directives). Legislative or executive authority can create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with legal contracts between the parties. "AG-12" A federal entity shall consider those practices and processes in determining whether and when an agreement with a transfer recipient creates enforceable rights and obligations.
16. A binding arrangement has at least one obligation because its enforceability holds the federal entity accountable for satisfying the stated obligations of the arrangement, and the accountability imposes little or no realistic alternative for the federal entity to avoid the transfer of resources.
17. When the binding arrangement is wholly unsatisfied, a federal entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The recognition of assets, liabilities, and expenses commences when one party to the binding arrangement starts to satisfy its obligations under the arrangement.
18. A binding arrangement is wholly unsatisfied if both of the following criteria are met:
 - A. The federal entity has not yet paid, and is not yet obligated to pay, any consideration to the transfer recipient for the transfer recipient satisfying any of its compliance obligations in the binding arrangement; and
 - B. The transfer recipient has not started satisfying any of its compliance obligations in the binding arrangement.



Example 48.4 - Agreement for Transfer Subject to Completion of the

A Federal entity has a financial year end of December 31. On March 15, 2027, the Federal entity (the transfer provider) enters into an arrangement with a local government entity (the transfer recipient) to transfer AED 15 million to the local government entity, to be used to build new infrastructure to reduce air pollution. AED 10 million is to be transferred in 2027, and the remaining AED 5 million to be transferred in 2028. As the reduction of air pollution is a priority for local government entity, local government entity began to build the new infrastructure as soon as the arrangement was signed.

The arrangement includes a term that the funding is subject to the completion of an appropriation by the legislative body. The legislative body completed the appropriation for AED 10 million in 2027 on October 31, 2027, and immediately transferred AED 10 million to the local government entity. By the time the appropriation for the AED 10 million was completed, the local government entity had already satisfied the compliance obligations which related to the AED 10 million portion of the total transfer. The appropriation process for the AED 5 million was not completed in 2027 but will be considered in the following year as part of the appropriation process for 2028.

In determining the effect of the appropriation on the arrangement, The Federal entity considers substance over form.

- **Case (A) - Requirement to Complete the Appropriation Process has Substance:**

In this scenario, the reduction in air pollution is a local government entity responsibility, and there is no authorizing legislation that requires the Federal entity to fund such initiatives. The arrangement states that the funding is subject to the appropriation process being completed by the legislative body. The arrangement also makes it clear that the completion of the appropriation process is not certain, and that, consequently, the transfer may be reduced or cancelled. Therefore, in this scenario, the arrangement is not binding until the appropriation process has been completed.

The Federal entity concludes that it does not have an obligation to transfer the AED 15 million (AED 10 million in 2027 and AED 5 million in 2028) until the appropriation process is completed. Consequently, in 2027, The Federal entity only recognizes an expense of AED 10 million to reflect the obligation to pay the local government entity for its satisfaction of the compliance obligations up to October 31, 2027. Had the local government entity not satisfied any of its compliance obligations at the time the AED 10 million is transferred, the Federal entity would instead recognize a transfer right asset of AED 10 million.

On March 31, 2028, the legislative body completes the appropriation process for the remaining AED 5 million. At this date, the Federal entity applies paragraphs related to **"Transfer Expenses from Transactions with Binding Arrangements"** of FGAAS 48 to assess the accounting implications for the remaining AED 5 million.

- **Case (B) - Requirement to Complete the Appropriation Process does not have Substance:**

In this scenario, the reduction of air pollution is a priority of both the Federal entity and the local government entity, and there is legislation in place which requires the Federal

Example 48.4 - Agreement for Transfer Subject to Completion of the

entity to invest in certain measures to reduce air pollution. The infrastructure to be built by the local government entity falls within the scope of this legislation, so the Federal entity is required by law to complete the appropriation for the AED 15 million transfer.

The Federal entity concludes that although the agreement states that the funding is subject to the completion of an appropriation process, this term has no substance, as the Federal entity is required by law to complete the appropriation for the AED 15 million transfer. Upon execution of the binding arrangement, the Federal entity applies paragraphs related to **“Transfer Expenses from Transactions with Binding Arrangements”** of FGAAS 48 in determining when to recognize a transfer right asset or a transfer expense.

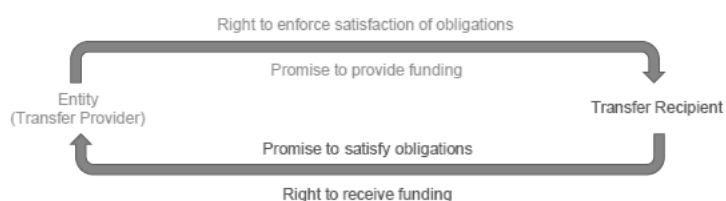
Enforceability

19. The interdependent rights and obligations in an arrangement must be enforceable to meet the definition of a binding arrangement. The federal entity's assessment of enforceability occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that arrangement.
20. An arrangement is enforceable when each of the involved parties is able to enforce its respective rights and obligations. An arrangement is enforceable by another party if the agreement includes:
 - A. Distinct rights and obligations for each involved party; and
 - B. Remedies for non-completion by either party which can be enforced through the identified enforcement mechanisms.
21. When a federal entity assesses enforceability, the federal entity should consider how the identified mechanisms of enforceability impose implicit or explicit consequences on any party or parties that do not satisfy their agreed-upon obligation(s) in the arrangement. If the federal entity is not able to determine how the mechanisms of enforceability identified at inception would in substance enable the federal entity to hold the other involved parties accountable for satisfying their stated obligation(s) in cases of non-completion, then the arrangement is not enforceable and does not meet the definition of a binding arrangement.
22. Enforceability arises from the compulsion by a legal system, including through legal means (enforced in the courts, as well as judicial rulings and case law precedence to comply with the terms of the arrangement) or compliance through equivalent means (laws and regulations, including legislation, executive authority, cabinet or ministerial directives).
23. A statement of intent or public announcement by a federal entity such as a government promise to spend money or deliver goods or services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this Standard. Such a declaration is general in nature and does not create a binding arrangement between a federal entity and a transfer

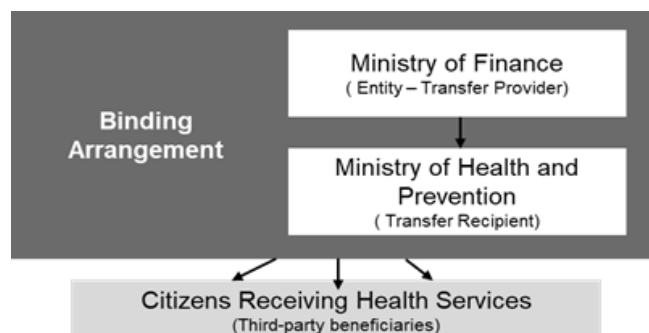
recipient under which both parties have rights and obligations. A federal entity considers whether such a public announcement gives rise to a non-legally binding (constructive) obligation in accordance with FGAAS 19, Provisions, Contingent Liabilities and Contingent Assets.

Parties in a Binding Arrangement

24. Arrangements often include two or more parties. For the arrangement to meet the definition of a binding arrangement for the purposes of this Standard, at least two of the parties to the arrangement must have their own rights and obligations conferred by the arrangement, and the ability to enforce these rights and obligations.
25. That is, at a minimum, the federal entity must be able to enforce satisfaction of the obligations assumed by the federal entity receiving the consideration, and the federal entity receiving the consideration (transfer recipient) must be able to enforce the promise to receive funding (consideration). The minimum two-way enforceability in a binding arrangement is illustrated in the diagram below:



26. Parties noted within a binding arrangement that do not have enforceable rights and obligations are third-party beneficiaries. Third-party beneficiaries in multi-party binding arrangements do not have any rights to force the transfer recipient to deliver goods and services.
27. However, for these multi-party arrangements to be classified as transfer expenses with binding arrangements, the federal entity must have the ability to compel the transfer recipient to deliver goods, services, or other assets to the third-party beneficiaries. In these multi-party arrangements, the transfer recipient is not an agent of the federal entity because the transfer recipient gains control of the resources from the federal entity and is responsible for providing goods, services, or other assets to the third-party beneficiaries. This relationship is illustrated in the following diagram



Combination of Binding Arrangements

28. A federal entity shall combine two or more binding arrangements entered into at or near the same time with the same transfer recipient (or related parties of the transfer recipient) and account for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:

- A. The binding arrangements are negotiated as a package with a single objective.
- B. The number of resources to be transferred in one binding arrangement depends on the consideration or performance of the other binding arrangement: or
- C. The transfer recipient's obligations under the binding arrangements (or some of the transfer recipient's obligations under each of the binding arrangements) are a single transfer right.

Transfer Expenses from Transactions without Binding Arrangements

Recognition

29. For transfer expenses without binding arrangements, a federal entity shall recognize expenses as follows:

- A. At the point when a constructive obligation or legal obligation to transfer resources arises and results in the recognition of a provision in accordance with FGAAS 19. In such cases, the recognition of the provision results in the recognition of an expense, and the subsequent transfer of resources settles the recognized provision; or.
- B. If a constructive or legal obligation to transfer resources does not exist, when the entity ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the entity derecognizes the resources it ceases to control in accordance with other Standards. (The paragraph below provides additional guidance on the derecognition of the transferred resources).

Derecognition of the Transferred Resources

30. For both transfer expenses transactions with and without binding arrangements:

- A. Prior to the transfer of a non-financial asset to a transfer recipient, the federal entity should consider FGAAS 21, Impairment of Non-Cash-Generating Assets, to determine if there has been a significant change in use of the non-financial asset, which could be an indication of impairment.
- B. The consideration in paragraph (A) does not apply to financial assets to be transferred, as the potential impairment of financial assets is assessed continuously in accordance with the requirements of FGAAS 41, Financial Instruments; and

- C. When the transferred resources are derecognized, a federal entity should apply the derecognition guidance from other Standards that are applicable to the assets which have been transferred.

Measurement

31. When a provision is recognized in the situation described by paragraph 29 (A), the provision is initially and subsequently measured in accordance with FGAAS 19.
32. When a Federal entity recognizes an expense at the time it ceases to control the resources, the federal entity shall measure the expense at the carrying amount of the transferred resources.

Transfer Expenses from Transactions with Binding Arrangements

Identifying Transfer Rights

33. At the inception of a binding arrangement to transfer resources, a federal entity shall consider its rights in the binding arrangement and shall identify each distinct transfer right as:
 - A. A right to have the transfer recipient satisfy an obligation that is separate from the satisfaction of other obligations in the binding arrangement; or
 - B. A series of rights to have the transfer recipient satisfy its obligation that have substantially the same characteristic and risks and that have the same pattern of satisfaction.
34. Transfer rights provide the basis of the timing of recognition for transfer expenses. This Standard requires transfer expenses with binding arrangements to be recognized as or when a transfer right is extinguished, and therefore requires the federal entity to allocate the transfer consideration to transfer rights.
35. A transfer right is identified as a distinct right that can be enforced separately from other rights in the binding arrangement. Typically, from the federal entity's perspective, whether a transfer right is distinct will be evident from the negotiations of the binding arrangement.
36. A federal entity shall aggregate related rights until the aggregation produces a distinct right that can be enforced separately. This aggregation is identified as a transfer right.
37. In some binding arrangements, it may not be possible to identify aggregations of rights to have the transfer recipient satisfy its obligations that are distinct. In such cases, the federal entity shall identify the binding arrangement as a single transfer right.



Example 48.5 - Determining Whether Goods or Services are Distinct

- **Case (A) - Goods or Services are not Distinct:**

The Ministry of health enters a binding arrangement with the Ministry of Energy and Infrastructure to build a hospital for a local government entity, a third-party beneficiary. Under the terms of the binding arrangement, the Ministry of Energy and



Example 48.5 - Determining Whether Goods or Services are Distinct

Infrastructure has agreed to perform the overall management of the project, as well as design and engineering, site clearance, foundation, procurement, construction of the structure, piping, electrical wiring, installation of equipment, and finishing.

To determine if the binding arrangement has more than one transfer right, the Ministry of health applies paragraphs above related to “Identifying Transfer Rights”, to determine whether the right to have each service performed can be enforced separately from the other rights in the binding arrangement.

Without the context of the overall arrangement, the rights to have the Ministry of Energy and Infrastructure perform the individual activities such as project management, design, procurement, and construction, could be viewed as distinct rights that can be enforced separately. However, within the context of the binding arrangement, these rights are all highly interdependent (e.g., the construction of the structure can only be performed after completion of the design, engineering, site clearance foundation, and procurement activities) and highly interrelated (i.e., the individual services together result in the building of a hospital).

Because the services in the binding arrangement are all highly interdependent and interrelated, none of the rights in the binding arrangement are distinct. Therefore, as noted in paragraph 36 of this Standard, the Ministry of health aggregates these related rights into a single transfer right.

- **Case (B) - Goods or Services are Distinct:**

The Ministry of Education enters into a binding arrangement with an IT services agency (the Agency) for the Agency to provide the following to a university in the region. (the third-party beneficiary) over a two-year period:

- Productivity software for staff (e.g., word processing and spreadsheet programs).
- Website-related services.
- Unspecified software updates for security purposes; and
- Technical support (online and telephone) to the staff.

The Agency provides the above goods or services separately. The software is comparable to purchasing an off-the-shelf productivity software that is expected to provide enough user accounts for existing and new staff throughout the two-year period, and the Agency is not expected to change the functionality of the software throughout the two-year period. The website-related services include hosting and maintaining the websites for the University, its departments, and staff members. The security updates are routinely performed to address potential vulnerabilities to cyberattacks and do not significantly modify the function of the software or websites. Lastly, technical support services are provided upon request by the staff throughout the two-year period.

The Ministry of Education assesses its rights to have the goods or services provided by the Agency to determine which rights are distinct in accordance with paragraphs above in this standard related to “Identifying Transfer Rights”.

The Ministry of Education observes that:



Example 48.5 - Determining Whether Goods or Services are Distinct

- The Agency can deliver each of the goods or services separately from the other goods or services in the binding arrangement. This is an indicator that the right to have each of the goods delivered or services performed can be separately enforced.
- The software and the various services in the binding arrangement can each be used separately by the University's faculty and staff (e.g., a staff member could be provided with the productivity software but not have a website). This fact further supports that the rights to the license and services can be separately enforced; and
- The goods or services are neither highly interdependent nor highly interrelated. The Ministry of Education noted that the productivity software and websites clearly do not relate to each other. Furthermore, while the security updates modify both the productivity software and websites, these updates do not change their functionality, and the purpose of the updates is to protect against cybersecurity risks. Finally, technical support relates to assisting the staff with the use of the software or websites and does not modify their functionality.

The Ministry of Education also noted that it could have purchased the above goods or services from separate entities but decided to enter one binding arrangement with the Agency to centralize the University's purchasing process and potentially negotiate a discount by bundling the license with services.

On the basis of the above assessment, The Ministry of Education identifies four transfer rights in the binding arrangement for the following goods or services:

- The productivity software.
- Website-related services.
- Security updates; and
- Technical support.

Recognition of Transfer Expenses

38. When (or as) a federal entity transfers resources in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations, the transferred resources are derecognized, and a transfer right asset is recognized for the transfer rights arising from the binding arrangement. (Paragraph 30 above provides additional guidance on the derecognition of the transferred resources).

Example 48.6 - Recognition of a Transfer Right Asset and its Subsequent Derecognition



The following example expands on the fact pattern presented in “Case (B) of Example 5” and **“Case (A) of Example 10”** where The Ministry of Education entered into a binding arrangement with an IT services agency (the Agency) to provide certain goods and services to university in the region (the University). In **“Examples 5 and 10”**, The Ministry of Education determined that its transfer rights in the binding arrangement and its allocation of the transfer consideration are as follows:

- The productivity software for AED 6 million.
- Website-related services for AED 2 million.
- Security updates for AED 3 million; and
- Technical support for AED 1 million.

The binding arrangement specifies that the transfer of the software occurs, and the service period begins upon payment of the entire AED 12 million by The Ministry of Education (i.e., The Ministry of Education pays upfront). Upon payment of the AED 12 million, the Agency transferred the software to the University and began the two-year service period for the website services, security updates and technical support.

The Ministry of Education recognizes the amount as a transfer right asset upon payment then determines how the transfer right asset should be derecognized based on the nature of each transfer right:

- **Productivity software** - The Ministry of Education observes that the Agency is only obligated to transfer the productivity software to the University upon payment and is not expected to perform further services such as updating the functionality of the software over the two-year period. Therefore, the transfer right for the software license was extinguished once the software was provided to the University, and AED 6 million of the transfer right asset should be expensed at that time.
- **Website-related services** - The Ministry of Education observes that the website hosting and maintenance services are to be performed for the University continuously throughout the two-year period. Therefore, a reasonable approach to reflect the extinguishment of this transfer right is to evenly derecognize AED 2 million of the transfer right asset while recognizing a transfer expense over time during the two-year period (e.g., amortizing AED 83,333 into expenses each month over the two-year period).
- **Security updates, and technical support services** - The Ministry of Education remaining transfer rights relate to services that are performed on an as-needed basis throughout the two-year period. As it would be overly onerous, if not impossible, to estimate when these services are required, a reasonable approach to reflect the extinguishment of these transfer rights would be to evenly derecognize the AED 4 million while recognizing a transfer expense over time during the two-year period. (e.g., amortizing AED 166,667 into expenses each month over the two-year period).

39. Conversely, when (or as) a transfer recipient satisfies its obligations in the binding arrangement prior to the federal entity transferring resources, the arrangement gives rise to a transfer obligation for the federal entity. The existence of a transfer obligation results in

the recognition of a transfer obligation liability. A transfer obligation liability is also recognized when it is more likely than not that a present obligation exists for the transfer of variable consideration (see paragraphs 71-73).

40. For transfer expenses with binding arrangements, a federal entity shall recognize expenses:

- A. When (or as) a transfer right asset is derecognized; or
- B. When a transfer obligation liability is recognized.

41. The derecognition of the transfer right asset results from the extinguishment of the transfer rights in accordance with the terms of the binding arrangement. For each transfer right identified in paragraph 33, the transfer right is extinguished when (or as) the federal entity no longer has enforceable rights in accordance with the binding arrangement.



Example 48.7 - Recognition of a Transfer Obligation Liability

The Ministry of education enters into a binding arrangement with a publisher (the Publisher) for the Publisher to provide copies of an accounting textbook to the public secondary schools in the city (the third-party beneficiaries). Because the number of textbooks required by each school is based on the number of staff enrolled in the accounting course, the binding arrangement only specifies that the Ministry of education will pay the Publisher AED 30 per textbook, and the number of textbooks to be provided will be based on enrollment numbers which will be finalized a month before the beginning of the accounting course.

Under the terms of the binding arrangement, the Ministry of education will provide the enrollment numbers along with an upfront deposit for 10% of the expected transfer consideration to the Publisher. The Publisher will then provide the textbooks to the schools at least two weeks before the start of the course, and the Ministry of education will pay the remaining consideration for the textbooks provided within 30 days after the schools have received the shipments.

Upon finalization of staff enrollment, the enrollment numbers were provided to the Publisher, and 19,800 textbooks were shipped to the schools. To account for this binding arrangement, the Ministry of education applies paragraphs above of this standard related to "Recognition of Transfer Expenses":

- Upon entering the binding arrangement, no accounting occurs as neither party has started to satisfy its obligations in the arrangement.
- A month before the course begins, the Ministry of education provides the enrollment numbers and the 10% deposit to the Publisher. Upon payment of the deposit, the Ministry of education recognizes a transfer right asset of "AED 59,400" (AED 30 x 19,800 books x 10%):

Description	Debit	Credit
Transfer right asset	59,400	
Cash		59,400

- Two weeks before the beginning of the course, the Publisher has fully satisfied its obligations by transferring the textbooks to the schools, and the Ministry of education right to have the textbooks delivered has been extinguished. The Ministry of education derecognizes the transfer right asset of “AED 59,400” and records the amount as a transfer expense. In addition, the Ministry of education also recognizes a transfer obligation liability and a transfer expense for the unpaid consideration of “AED 534,600” (AED 30 x 19,800 books - AED 59,400 deposit) based on the terms of the binding arrangement:

Description	Debit	Credit
Transfer expense	594,400	
Transfer right asset		59,400
Transfer obligation liability		534,600

Derecognition of a Transfer Right Asset Due to Non-Performance by the Transfer Recipient

42. After the recognition of a transfer right asset by the federal entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. Where the federal entity has an enforceable and unconditional right to the receipt of cash or other financial assets arising from the terms of the binding arrangement, the legal system, and/or other circumstances, the federal entity shall derecognize the transfer right asset and recognize a financial asset. Subsequent to its recognition, the federal entity shall measure the financial asset in accordance with FGAAS 41.



Example 48.8 - Derecognition of a Transfer Right Asset Due to Non-Performance

The Ministry of Health (the Ministry) enters into a binding arrangement with a corporation that operates a number of private clinics in the Country (the Corporation). Under the terms of the binding arrangement, the Ministry will provide an upfront payment of AED 1 million to the Corporation for the Corporation to operate a vaccination program and administer 10,000 doses of a vaccine to the citizens in the Country over the next 12 months. The Corporation is required to provide monthly reports on the number of doses administered and patient information to the Ministry.

The binding arrangement specifies that if the Corporation stops administering the vaccine or if the 10,000 doses are not administered at the end of the 12-month period, the Corporation is required to pay AED 100 per unadministered dose to the Ministry. This requirement to return funds is applicable regardless of whether the Corporation has spent the funds on acquiring the vaccinations. (e.g., if the Corporation purchases 10,000 doses immediately upon receipt of the

AED 1 million, then only administers 5,000 doses and stops the vaccination program, it will be required to return AED 500,000 to the Ministry even though the entire AED 1 million has been spent.) However, the binding arrangement also specifies that the Corporation is not responsible for the repayment of funds related to vaccines that cannot be administered due to a force majeure event such as natural disasters.

- **Case (A) - The Corporation Decides to Stop the Vaccination Program:**

Upon paying the AED 1 million, the Ministry recognizes a transfer right asset for the right to have the Corporation's clinics administer the 10,000 doses of the vaccine. Upon receipt of the AED 1 million, the Corporation purchases and distributes 1,000 doses of the vaccine to its clinics. After administering only 500 vaccines, the Corporation observes that the administration of each dose of the vaccine is resulting in a loss. As a result, the Corporation makes a business decision and informs the Ministry that it will stop administering the vaccines.

For the vaccines that have been administered, the Ministry derecognizes AED 50,000 of the transfer right asset and recognizes a transfer expense for the same amount. For the remaining 9,500 doses, based on the terms of the binding arrangement, the Ministry applies the above paragraph of this Standard:

- Derecognize the transfer right asset of AED 950,000; and
- Recognize a receivable for AED 950,000 (AED 100 x 9,500 doses). The fact that the Corporation has already spent AED 100,000 to purchase vaccines has no relevance to the amount to be repaid to the Ministry based on the terms of the binding arrangement. This receivable is a financial asset within the scope of FGAAS 41, Financial Instruments—that is, the amount is subject to the recognition and measurement requirements, including impairment considerations, in FGAAS 41 and is no longer within the scope of FGAAS 48.

- **Case (B) - A Force Majeure Event Prevents the Administration of 10,000 Doses:**

Similar to “**Case (A)**”, upon paying the AED 1 million, the Ministry recognizes the amount as a transfer right asset. In this scenario, the Corporation also purchases 1,000 doses of the vaccine upon the receipt of funds. However, after administering 500 doses, an earthquake occurred in the region and the remaining 500 doses of the vaccine held in storage were destroyed. The Corporation informed the Ministry of the destruction of the 500 doses but noted that it intends to continue with the vaccination program and administer the remaining 9,000 within 12 months.

Like “**Case (A)**”, the Ministry derecognizes AED 50,000 of the transfer right asset and recognizes a transfer expense of AED 50,000 for the 500 administered vaccines. However, the terms of the binding arrangement do not confer the right to recover any funds for the 500 vaccines which were destroyed in the earthquake. In addition, the Corporation has not provided any indication that they will not be able to administer the remaining 9,000 doses within the 12-month period.

Based on the fact pattern in this scenario, the Ministry applies the paragraph below in this standard related to “Impairment of a Transfer Right Asset” and considers if the remaining transfer right asset of AED 950,000 has been impaired. Because the Ministry does not have any recourse for the 500 doses lost in the earthquake, it now only has a

transfer right to have the Corporation's clinics provide 9,000 doses to the citizens in the region. As a result, the Ministry records an impairment of AED 50,000 in accordance with FGAAS 21 and reduces its transfer right asset to AED 900,000.

Recognition at Inception of a Binding Arrangement

43. In accordance with paragraph 17, at the inception of a binding arrangement and when the binding arrangement is wholly unsatisfied, a federal entity shall not recognize any asset, liability, or expense associated with the binding arrangement. The transfer rights and transfer obligations under a wholly unsatisfied binding arrangement are interdependent and inseparable. The combined transfer rights and transfer obligations constitute a single asset or liability that is measured at zero.
44. Individual transfer rights and transfer obligations are recognized as items (assets, liabilities and expenses depending on their nature) only when or as one or more parties to the binding arrangement satisfy their stated obligations. A federal entity shall account for these items in accordance with recognition requirement above.
45. Where parts of the binding arrangement remain equally unsatisfied, the federal entity shall not recognize any asset, liability, or expense for the equally unsatisfied parts of the binding arrangement. Such equally unsatisfied parts of the binding arrangement continue to constitute a single asset or liability that is measured at zero.

Derecognition of the Transfer Right Asset

46. Typically, a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the federal entity continues to have enforceable rights under the binding arrangement. When the transfer recipient satisfies its obligations, the federal entity's corresponding transfer right is extinguished.
47. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the federal entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, a federal entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the federal entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.
48. Methods for measuring progress towards complete extinguishment of a transfer right may include surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or delivered. When a federal entity evaluates whether to apply a particular method to measure progress towards complete extinguishment of a transfer right, the federal entity shall consider whether the method selected would faithfully depict the reduction of a transfer right in accordance with the terms of the binding arrangement.

49. A method would not provide a faithful depiction of the progress towards complete extinguishment of a transfer right if the method selected would fail to measure some aspects of the binding arrangement. For example, in arrangements where a transfer right is extinguished as the transfer recipient satisfies its obligations, methods based on elapsed time would not faithfully depict the transfer recipient's satisfaction of obligations if its performance involved goods or services that are not delivered evenly over time. In evaluating whether to apply a particular method to measure a transfer recipient's progress, a federal entity should apply judgment.
50. In some situations, a transfer right asset may be derecognized when the transfer recipient is unable or unwilling to satisfy its obligations in a binding arrangement. (See paragraph 42). A transfer right asset may also be derecognized if changes in facts and circumstances indicate that the arrangement is no longer binding. (See paragraph 19).
51. If the federal entity and the transfer recipient both satisfy their obligations from the binding arrangement at the same time, the federal entity's transfer right will no longer exist at the time of transfer, and an expense is recognized upon the transfer of resources.

Recognition of a Transfer Obligation Liability

52. If the transfer recipient has satisfied its obligations and the federal entity has not yet transferred its resources as required by the binding arrangement, the federal entity typically no longer has any enforceable rights within the binding arrangement. In these situations, the terms of the binding arrangement, as well as the laws and regulations that apply to the binding arrangement, will typically grant the transfer recipient the enforceable right to payment for the satisfaction of the obligation completed to date.
53. If the transfer recipient has already satisfied its obligations, the obligation to transfer resources is unconditional and the nature of the liability is similar to a payable. Therefore, the federal entity recognizes a transfer obligation liability and an expense for its transfer obligation, and the subsequent transfer of resources is a settlement of the recognized liability.
54. In many cases, a transfer recipient will have an unconditional right to payment only at an agreed- upon milestone or upon complete satisfaction of the obligation. In assessing whether a transfer recipient has a right to payment for satisfaction of the obligation completed to date, a federal entity shall consider whether the transfer recipient would have an enforceable right to demand or retain payment for satisfaction of its obligation completed to date if the binding arrangement were to be terminated before completion for reasons other than the transfer recipient's failure to satisfy its obligations as promised.
55. In some binding arrangements, a federal entity may or may not have a right to terminate the binding arrangement only at specified times during the life of the binding arrangement.
56. If a federal entity acts to terminate a binding arrangement without having the right to terminate the binding arrangement at that time (including when the transfer recipient fails. to satisfy its obligations as promised), the binding arrangement (or other laws) might entitle the transfer recipient to continue to satisfy its obligations and require the federal entity to

pay the consideration promised in exchange for those obligations being satisfied. In those circumstances, a transfer recipient has a right to payment for satisfaction of its obligations completed to date because the transfer recipient has a right to continue to satisfy its obligations in accordance with the binding arrangement and to require the federal entity to satisfy its transfer obligations.

57. In assessing the existence and enforceability of a right to payment for performance completed to date, a federal entity shall consider the terms of the binding arrangement as well as any legislation or legal precedent that could supplement or override those terms of the binding arrangement.
58. The payment schedule specified in a binding arrangement does not necessarily indicate whether a transfer recipient has an enforceable right to payment for satisfaction of its obligations completed to date. Although the payment schedule in a binding arrangement specifies the timing and amount of consideration that is payable by a federal entity, the payment schedule might not necessarily provide evidence of the transfer recipient's right to payment for satisfaction of its obligations completed to date. This is because, for example, the binding arrangement could specify that the consideration transferred by the federal entity is refundable for reasons other than the transfer recipient failing to satisfy its obligations as promised in the binding arrangement.

Interaction Between Transfer Right Assets and Transfer Obligation Liabilities

59. After recognition, the transfer right asset shall be increased by the carrying number of additional resources transferred and decreased by the amount of expenses or any impairment recognized, until the carrying amount of the transfer right asset is zero. At that point, any further satisfaction of the transfer recipient's compliance obligations will result in the recognition of an expense and a transfer obligation liability.
60. After recognition, the transfer obligation liability shall be increased by the amount of additional expenses recognized and decreased by the carrying amount of resources transferred to the transfer recipient, until the carrying amount of the transfer obligation liability is zero. Any further transfer of resources to the transfer recipient at that point shall be recognized as a transfer right asset.

Modifications to a Binding Arrangement

61. A modification to a binding arrangement is a change in the rights and obligations of a binding arrangement that is approved by the parties to the binding arrangement. A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new enforceable rights and obligations or changes the existing enforceable rights and obligations of the parties to the binding arrangement.
62. A modification to a binding arrangement could be approved in writing, by oral agreement, or implied by a federal entity's customary practices. If the parties to the binding arrangement have not approved a modification to a binding arrangement, a federal entity shall continue to apply this Standard to the original binding arrangement until the modification to the binding arrangement is approved.

63. A federal entity shall account for a modification to a binding arrangement as a separate binding arrangement if both of the following conditions exist:
- A. The scope of the binding arrangement increases, providing the federal entity with one or more additional transfer rights, because the transfer recipient accepts one or more additional obligations, or an increase in one or more existing obligations; and
 - B. The transfer consideration increases by an amount that is intended to reflect the value of the additional transfer rights by compensating the transfer recipient for the additional or increased obligations assumed.
64. If a modification to a binding arrangement is not accounted for as a separate binding arrangement in accordance with the above paragraph, a federal entity shall account for the modification to the binding arrangement as if it were a part of the original binding arrangement.
65. The federal entity shall determine the accumulated transfer expense to be recognized as at the date of the modification by revising its estimates of the transfer consideration and the amount of the transfer consideration allocated to extinguished and unextinguished transfer rights. The difference between the accumulated transfer expense determined as at the date of the modification and the accumulated transfer expense previously recognized shall be recognized in surplus or deficit as at the date of the modification.



Example 48.09 - Modifications to a Construction Arrangement

The Ministry of Energy and Infrastructure (the transfer provider) enters into a binding arrangement with the Department of Public Works (the transfer recipient) to construct a residential building for a Housing Association (the third-party beneficiary) on land owned by the Association for promised consideration of AED 1 million. In accordance with this Standard and based on the terms of the binding arrangement, the Ministry of Energy and Infrastructure accounts for the transfer as a single transfer right extinguished over time as construction of the residential building is being completed.

The Ministry of Energy and Infrastructure determines that an output measure, the stage of completion assessed by a qualified quantity surveyor, provides an appropriate measure of progress towards completion of the residential building. By the end of the first year, The Ministry of Energy and Infrastructure assesses that the Department of Public Works has completed 60% of the building's construction based on the surveyor's report. Consequently, the expenses recognized by the Ministry of Energy and Infrastructure for the first year are AED 600,000 (transfer consideration of AED 1 million x 60%).

- **Case (A) - Modification Resulting in a Cumulative Catch-Up Adjustment to Expenses:**
In the first quarter of the second year, the parties to the binding arrangement agree to modify the binding arrangement by changing the floor plan of the building. As a result, the transfer consideration increases by AED 150,000 and the total transfer



Example 48.09 - Modifications to a Construction Arrangement

consideration after the modification is AED 1,150,000. In assessing the modification to the binding arrangement, the Ministry of Energy and Infrastructure concludes that the upcoming construction based on the revised floor plan remains a single transfer right rather than any additional transfer rights, because the modification does not result in the acceptance of additional distinct compliance obligations by the Department of Public Works or an increase in the Department of Public Works existing compliance obligations.

Consequently, The Ministry of Energy and Infrastructure accounts for the modification to a binding arrangement as if it were part of the original binding arrangement. Based on an updated quantity surveyor's report, the Ministry of Energy and Infrastructure updates its measure of progress and estimates that construction of the modified building is 53% complete at the date of modification. As a result, the Ministry of Energy and Infrastructure recognizes additional expenses of AED 9,500 [(53% complete x AED 1,150,000 modified transaction consideration) - AED 600,000 expenses recognized to date] at the date of the modification as a cumulative catch-up adjustment in the statement of financial performance.

- **Case (B) - Modification Resulting in a New Binding Arrangement:**

Continuing with the facts presented in the introduction of this example. In the first quarter of the second year, the parties to the arrangement agree to modify the binding arrangement by including additional funding of AED 100,000 for the construction of a parking lot to be located next to the residential building.

The Ministry of Energy and Infrastructure determines that this modification results in a separate binding arrangement because:

- The construction of the parking lot is a new transfer right, as the Ministry of Energy and Infrastructure can enforce its construction separately from the construction of the building. That is, the enforceable right for the construction of the parking lot is a distinct right; and
- The additional consideration of AED 100,000 is intended to reflect the value of the additional transfer right by compensating the Department of Public Works for the construction of the parking lot.

As a result, the Ministry of Energy and Infrastructure continues to account for the transfer relating to the construction of the residential building in the same manner described above in the introduction of this example. The AED 100,000 transfer relating to the construction of the parking lot is accounted for as a separate binding arrangement.

This example will be continued when addressing the remaining topics in this standard (the requirements to estimate variable consideration, as well as the requirements on changes in transfer consideration, as appropriate).

Measurement

66. A federal entity shall consider the terms of the binding arrangement to determine the transfer consideration. Transfer consideration is the total carrying amount of the resources which a federal entity has transferred, or is obligated to transfer, to the transfer recipient in accordance with the binding arrangement and includes the effects of variable consideration (see the paragraphs below related to “Variable Consideration”).
67. When a federal entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the federal entity shall, at recognition, measure the resulting transfer right asset at the total carrying amount of the resources which have been transferred in accordance with the binding arrangement.
68. When a transfer expense is recognized from the extinguishment of a transfer right, the transfer expense is measured at the amount of the transfer consideration that is allocated to the extinguished transfer right in accordance with the below paragraph related to “Allocating the Transfer Consideration to Transfer Rights”.
69. When the transfer recipient has satisfied its compliance obligations and the federal entity has not yet transferred its resources as required by the binding arrangement, the federal entity measures its transfer obligation liability at the total carrying amount of the resources which the federal entity is obligated to transfer in accordance with the binding arrangement.
70. To determine the transfer consideration, a federal entity shall assume that the transfer recipient will satisfy its obligations in accordance with the existing binding arrangement and that the binding arrangement will not be cancelled, renewed, or modified.

Variable Consideration



71. The resources required to be transferred by a binding arrangement can vary for items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The resources can also vary if the federal entity's obligation to transfer the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the transfer recipient if it satisfies its obligations in the binding arrangement within a specified period.
72. For a transfer expense transaction, variable consideration in a binding arrangement may result in a liability of uncertain timing or amount, which meets the definition of a provision in FGAAS 19.
73. If the federal entity has determined that it is more likely than not that a present obligation exists for the transfer of variable consideration, the federal entity shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with FGAAS 19.

Allocating the Transfer Consideration to Transfer Rights



74. When a binding arrangement involves multiple distinct transfer rights, the transfer consideration shall be allocated to each distinct transfer right to reflect its stand-alone consideration, adjusted for amounts of variable consideration.
75. Variable consideration that is agreed in a binding arrangement may be attributable to the entire binding arrangement or to specific transfer rights. A federal entity shall allocate variable consideration as follows:
 - A. When the variable consideration can be identified with one or more transfer rights, the variable consideration shall be allocated to those transfer rights in accordance with paragraph 74; or
 - B. When the variable consideration cannot be identified with one or more transfer rights, the federal entity shall allocate the variable consideration to all the transfer rights proportionately to their share of the transfer consideration (excluding variable consideration that cannot be identified with one or more transfer rights).
76. Where a binding arrangement specifies the amount of stand-alone consideration for each transfer right, the transfer consideration shall be allocated to the transfer rights in accordance with the binding arrangement (adjusted, where necessary, for amounts of variable consideration).
77. Where a binding arrangement does not specify the amount of transfer consideration for each transfer right, the federal entity shall determine the amounts to be allocated to each transfer right based on its best estimates of the amounts that were intended to compensate the transfer recipient for satisfying its obligations when negotiating the binding arrangement.



Example 48.10 - Allocation of Transfer Consideration

Continuing the fact pattern from “Case (B) of Example 5”, the Ministry of Education has concluded that it has four distinct transfer rights in its binding arrangement with the IT services agency (the Agency). These transfer rights relate to providing the University with productivity software, website-related services, security updates, and technical support services over a two-year period.

When the Ministry of Education began negotiations with the Agency, it observed that the Agency’s published prices would have been as follows, had the software and services been purchased separately for the two-year period:

- Productivity software: AED 6 million.
- Website-related services: AED 4 million.
- Security updates: AED 3 million; and
- Technical support: AED 2 million.

During negotiations, the Ministry of Education and the Agency used these published prices as a starting point then agreed to reduce the total consideration for all four deliverables from AED 15 million to AED 12 million.

Example 48.10 - Allocation of Transfer Consideration

- **Case (A) - Binding Arrangement Specifies Each Transfer Right's Stand-Alone Consideration:**

In this scenario, the binding arrangement specifies that the AED 3 million reduction in transfer consideration resulted from an AED 2 million discount for website-related services and an AED 1 million discount for technical support.

The Ministry of Education uses the amount of stand-alone consideration, and the negotiated discount specified in the binding arrangement for each transfer right and allocates the transfer consideration as follows:

- Productivity software: AED 6 million.
- Website-related services: AED 2 million.
- Security updates: AED 3 million; and
- Technical support: AED 1 million.

- **Case (B) - Binding Arrangement Only Specifies the Total Transfer Consideration**

In this scenario, the Ministry of Education and the Agency only agreed to the overall AED 3 million discount for the entire bundle of the software and the various services, and the binding arrangement does not specify how the AED 3 million is to be allocated. The Ministry of Education estimates the consideration allocated to each transfer right based on the amounts that were intended to compensate the Agency for the software and the services. As the Agency's published prices were used as the starting point for negotiations, the Ministry of Education noted that these prices are appropriate proxies for the stand-alone consideration of the software and services. Therefore, one reasonable allocation approach is to proportionately allocate the AED 12 million based on each deliverable's published prices.

Using this approach, the Ministry of Education allocates the transfer consideration as follows:

- Productivity software: AED 4.8 million (AED 6 million ÷ CU15 million x CU12 million).
- Website-related services: AED 3.2 million (AED 4 million ÷ AED 15 million x AED 12 million).
- Security updates: AED 2.4 million (AED 3 million ÷ AED 15 million x AED 12 million); and
- Technical support: AED 1.6 million (AED 2 million ÷ AED 15 million x AED 12 million).

Changes in the Transfer Consideration



78. After the inception of the binding arrangement, the transfer consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which a federal entity is obligated to pay in the binding arrangement.
79. For a change in transfer consideration that did not arise from a modification to the binding arrangement, a federal entity shall allocate to the transfer right assets and transfer

obligation liabilities in the binding arrangement any subsequent changes in the transfer consideration on the same basis as at the inception of the binding arrangement. Amounts allocated to an extinguished transfer right shall be recognized as an expense, or as a reduction of an expense, in the period in which the transfer consideration changes.

80. A federal entity shall account for a change in the transfer consideration that arises from a modification to the binding arrangement in accordance with paragraphs 61-65.

Example 48.11 - Modifications to a Construction Arrangement - Change in Transfer Consideration Due to the Resolution of Uncertain Events

Continuing the fact pattern from **“Example 10”**: Case C of this example illustrates the requirements to estimate **variable consideration**, as well as the requirements on **changes in transfer consideration**. Cases (A & B above in the example 10), and (C below) all build on the fact pattern outlined above in the introduction of the illustrative example but are each independent from each other.

- **Case (C) - Change in Transfer Consideration Due to the Resolution of Uncertain Events:**

Modifying the facts presented in the introduction of this example above, At the inception of the binding arrangement, the Ministry of Energy and Infrastructure also agreed to pay a bonus of AED 200,000 after construction of the building if it is completed within 24 months. For clarity, this bonus is part of the original terms of the binding arrangement and not a subsequent modification.

Completion of the building is highly susceptible to factors outside the Department of Public Works influence, including weather conditions and regulatory approvals. In addition, the Department of Public Works has limited experience with similar types of binding arrangements. Based on these factors, the Ministry of Energy and Infrastructure excluded the AED 200,000 bonus from the transfer consideration at the inception of the binding arrangement.

At the end of the first year, the required regulatory approvals have been obtained and the remaining construction work related primarily to interior work which was not subject to weather conditions. Furthermore, the progress of work completed to date indicated that completion of the building within 24 months is likely. As a result, the Ministry of Energy and Infrastructure concludes that payment of the bonus is now probable and adjusts the transfer consideration to AED 1,200,000.

The reassessment of variable consideration is not, in and of itself, a modification of the binding arrangement. The Ministry of Energy and Infrastructure accounts for the probable payment of the bonus by applying paragraph 79 of this Standard and allocates the AED 200,000 bonus to the transfer right relating to construction of the building. As 60% of the construction has been completed to date, the Ministry of Energy and Infrastructure expenses an additional AED 120,000 for the probable bonus payment as a cumulative catch-up adjustment ((AED 1,200,000 x 60%) - AED 600,000 expense recognized to date).

Impairment of a Transfer Right Asset



81. After the recognition of a transfer right asset by the federal entity, the transfer recipient may become unable or unwilling to satisfy its obligations under the binding arrangement. When this occurs, and the terms of the binding arrangement, the legal system, and/or other circumstances do not support the recognition of a financial asset as noted in paragraph 42, the federal entity shall assess the transfer right asset for impairment in accordance with FGAAS 21, Impairment of Non-Cash- Generating Assets.

Presentation

Display



82. For transfer expenses from transactions without binding arrangement, if a federal entity recognizes a provision for a constructive or legal obligation to transfer resources, the resulting provision is presented in accordance with the presentation requirements for provisions in FGAAS 1.
83. For transfer expenses from transactions with binding arrangements, when only one party to a binding arrangement has performed and the other parties have yet to perform, a federal entity shall present the binding arrangement in the statement of financial position as a transfer right asset or transfer obligation liability, based on the guidance in paragraphs 38-39.
84. A federal entity shall present a transfer right asset in accordance with the presentation guidance for prepayment assets in FGAAS 1.
85. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 42), the federal entity presents the financial asset in accordance with the requirements in FGAAS 28, Financial Instruments: Presentation.
86. A federal entity shall present a transfer obligation liability in accordance with the presentation guidance for transfers payable in FGAAS 1.
87. As required by FGAAS 1, a federal entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity. FGAAS 1 also requires the subclassification of expenses to highlight the costs and cost recoveries of particular programs, activities, or other relevant segments of the reporting federal entity.
88. In the context of transfer expenses, the analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made.
89. The previous paragraph requires transfer expenses to be included in the analysis of expenses, either presented on the face of the statement of financial performance or disclosed in the notes. To meet this requirement and the disclosure objective in the below paragraph, a federal entity shall provide sufficient information in the analysis of expenses, along with a

description of the nature of the federal entity's operations and principal activities as required by FGAAS 1, Presentation of Financial Statements, to enable users to understand how the federal entity's resources are spent on its programs, activities and services.

Disclosure



90. The objective of the disclosure requirements is for the federal entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of expenses and cash flows arising from transfer expense transactions. To achieve that objective, the federal entity shall disclose qualitative and quantitative information about all of the following:
- A. Transfer expenses and related balances.
 - B. Transfer arrangements; and
 - C. The significant judgments, and changes in the judgments, made regarding the recognition of transfer right assets from transfer expense transactions.
91. In making the disclosures required by this Standard, a federal entity shall consider the requirements of FGAAS 1 which provide guidance on materiality and aggregation. A specific disclosure requirement in this Standard need not be satisfied if the information is not material.
92. A federal entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A federal entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

Transfer Expenses and Related Balances



93. As noted in paragraphs 87-88, a federal entity shall incorporate transfer expenses in the analysis of expenses required by FGAAS 1. This analysis can be presented on the face of the statement of financial performance or disclosed in the notes.
94. In addition to the analysis of expenses, a federal entity shall provide qualitative and quantitative information on the significant transfers arising from transactions with and without binding arrangements to enable users to understand how the federal entity's resources are spent on its programs, activities, and services.
95. When a transfer right asset has been derecognized for non-performance and a financial asset has been recognized (see paragraph 42), the federal entity applies the disclosure requirements for financial assets from FGAAS 30, Financial Instruments: Disclosures.
96. A transfer obligation liability which arises from an obligation to transfer cash meets the definition of a financial liability measured at amortized cost. Therefore, the disclosure requirements from FGAAS 30 for payables are applicable to such liabilities.

97. If a liability has been recognized for variable consideration (see paragraphs 71-73), a federal entity shall apply the disclosure requirements applicable to provisions in FGAAS 19.

98. For transfers from transactions without binding arrangements, when a liability is recognized for a legal or constructive obligation to transfer resources, a federal entity shall apply the disclosure requirements applicable to provisions in FGAAS 19.

Transfer Arrangements



99. A federal entity shall disclose information about its transfer binding arrangements, including a description of the following:

- A. The purpose of the transfer binding arrangements.
- B. Significant payment terms.
- C. The nature of the resources that have been or will be transferred; and
- D. Significant risks and uncertainties relating to the realization of transfer rights assets.

The above information can be aggregated for binding arrangements that are of a similar nature.

100. A federal entity may enter an arrangement for a transfer that is not a binding arrangement. For such arrangements, an entity shall disclose the following:

- A. The purpose of the transfer arrangements.
- B. Significant payment terms, if any; and
- C. The nature of the resources that have been or will be transferred.

The above information can be aggregated for arrangements that are of a similar nature.
Significant Judgments, and Changes in Judgments, Made Regarding the Recognition of Transfer Right Assets from Transfer Expense Transactions



101. A federal entity shall disclose the significant judgments, and changes in judgments, made regarding the recognition of transfer right assets from transfer expense transactions. In particular, a federal entity shall explain the basis for the recognition of its transfer right assets.

Application of Principles to Specific Transactions

Capital Transfers

102. This Standard defines a capital transfer as a transaction that arises from a binding arrangement where the federal entity provides cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. A capital transfer gives rise to at least one transfer right to the federal entity for the transfer recipient to satisfy its obligation to acquire or construct a non-financial asset or comply with non-compliance requirements as specified in the binding arrangement.
103. A federal entity shall account for a capital transfer transaction by applying paragraphs 33-41. A federal entity shall identify the transfer rights in the binding arrangement in accordance with paragraph 33 then separately account for each transfer right by applying paragraphs 38-41. In situations where a federal entity transfers resources prior to the acquisition or construction of the non-financial asset by the transfer recipient, upon the transfer of resources, the federal entity typically recognizes a transfer right asset, which is then expensed when the non-financial asset is acquired or as it is being constructed by the transfer recipient.
104. Some binding arrangements for capital transfers may include a transfer right for the acquisition or construction of a non-financial asset, which meets the definition of a capital transfer, and separate transfer rights for the operation of the asset, which would not meet the capital transfer definition. The federal entity determines whether the binding arrangement includes one or more transfer rights relating to the operation of the asset by assessing whether the transfer consideration is intended to compensate the transfer recipient for the operation of the asset once constructed or acquired.

Example 48.12 - Capital Transfers

- **Case (A) - Transfer Only Relates to the Construction of an Asset:**

Federal entity "A" enters into a binding arrangement with entity "B". The terms of the binding arrangement are as follows:

- Federal entity "A" is to provide funding in the form of AED 22 million in cash to entity "B", to be used by entity "B" to construct a building. There are no terms specifying how the building is to be used after construction.
- The amount of AED 22 million is based on the budgeted construction and related costs. The funding is to be fully provided to entity "B" at the beginning of the construction period.
- To facilitate federal entity "A" enforcement of the binding arrangement, the terms require entity "B" to:
 - ✓ Have a detailed construction plan outlining the activities to be completed in each significant phase of construction (e.g., clearing the site, foundations, framing, etc.), along with the budgeted costs of these activities: and
 - ✓ Provide detailed progress reports at each significant stage of construction.



- Upon completion of construction, entity “B” obtains control of the building. If construction of the building is not completed within five years, entity “B” retains control of any construction in progress but any funds that have not been spent on construction are to be returned to federal entity “A”.

Analysis:

Federal entity “A” has determined that the binding arrangement consists of one transfer right (for entity “B” to construct the building) and that completion of the construction activities noted in the construction plan, as measured by the costs spent on these activities, is an appropriate measure of progress towards complete extinguishment of this right.

In this example, the substance of the binding arrangement is to provide funding for the construction of the building, and there is no transfer relating to the subsequent use of the building by entity “B”. Therefore, upon payment of the AED 22 million, federal entity “A” recognizes a transfer right asset for the full amount of AED 22 million as entity “B” has not yet started construction of the building.

As entity “B” completes the construction activities in the construction plan, the costs incurred in completing these activities is used to determine the percentage of construction completed. Federal entity “A” applies this percentage to the AED 22 million to determine the portion of the transfer right asset that should be derecognized and expensed throughout the construction period.

- **Case (B) - Transfer Relates to the Construction and Operation of an Asset:**

In this example, the binding arrangement states that:

- The funding amount has been increased to AED 32 million. This amount is based on the budgeted construction costs of AED 20 million, construction-related overhead costs of AED 2 million, and a subsidy of AED 10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building.
- Throughout the 10-year operating period, entity “B” is required to provide evidence to federal entity “A” that the building has been operated as a public library. The evidence can include documentation such as audited financial statements which provide details on the operating costs incurred by entity “B”.
- If entity “B” stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the AED 10 million operating transfer to federal entity “A” based on the amount of time remaining in the 10-year period. For example, if entity “B” stops operating the building as a library at two years into the 10-year period, it is required to return AED 8 million to federal entity “A”; and
- Similar to **“Case (A)”**, federal entity “A” transfers the entire AED 32 million to entity “B” at the beginning of the construction period. Entity “B” is also required to provide information regarding construction progress to federal entity “A”.

Analysis:

In this scenario, federal entity “A” concludes that the binding arrangement consists of two transfer rights: the construction of the building and the operation of the building

as a library for a 10-year period. Applying the requirements from FGAAS 48, federal entity “A” has allocated AED 22 million to the right for entity “B” to construct the building and AED 10 million to the right for entity “B” to operate the building as a public library for 10 years.

For the transfer right relating to the construction of the building, as in **“Case (A)”**, federal entity “A” recognizes a transfer right asset of AED 22 million upon the transfer of funds. Federal entity “A” then derecognizes the AED 22 million (and recognizes the amounts as transfer expenses) over the construction period, based on the construction progress as determined by information reported by entity “B”.

For the transfer right relating to the operation of the building as a library, federal entity “A” has determined that this transfer right is extinguished as the building is being operated by entity “B” as a library during the 10-year period. Therefore, federal entity “A” recognizes the entire AED 10 million as a transfer right asset upon payment. After construction has been completed, as entity “B” operates the building as a public library, federal entity “A” derecognizes AED 1 million of the transfer right asset per year over the 10-year period and recognizes the amount as a transfer expense.

- **Case (C) - Transfer Relates to the Construction and Operation of an Asset, and an Additional Penalty is Payable if the Entity Ceases Operation of the Asset:**

In this scenario, the binding arrangement includes all the terms from **“Case (B)”**, with the addition of the following:

- The binding arrangement now imposes a penalty of AED 5 million under specific conditions. If entity “B” stops operating the building as a library within the 10-year period, it is required to pay a penalty to federal entity “A”.
- The AED 5 million penalty is payable in addition to the return of funds for not complying with the terms of the binding arrangement related to the operation of the asset. For clarity, if entity “B” has completed construction of the building and operated the building as a library for nine years but stops operating the library at the beginning of the 10th year, it is required to pay AED 6 million (repayment of AED 1 million of the operating subsidy plus the AED 5 million penalty) to federal entity “A”.

Analysis:

In this scenario, the accounting for the AED 22 million and AED 10 million portions of the transfer for construction and operation of the building as a library will be the same as **“Cases (A) and (B)”**. That is, federal entity “A” will recognize the AED 32 million as a transfer right asset upon the transfer of funds. Subsequently, the AED 22 million will be expensed as the building is constructed and the AED 10 million will be expensed over the 10-year operating period.

The additional AED 5 million penalty is not recognized by federal entity “A” because its receipt is contingent on entity “B” ceasing to operate the building as a public library. Such a contingent asset is not recognized in accordance with FGAAS 19.

- **Case (D) - Transfer Only Relates to the Operation of an Asset:**

The following scenario is independent from “Cases (A)-(C)” and illustrates the accounting for a transfer without a capital transfer component.

In this scenario:

- Entity “B” already owns the building.
- Under the terms of the binding arrangement, federal entity “A” is required to transfer AED 10 million to entity “B” to subsidize the operation of the building as a public library for the next 10 years. The transfer of funds is required to occur upon finalization of the binding arrangement.
- Throughout the 10-year period, entity “B” is required to provide evidence to federal entity “A” that the building has been operated as a public library; and
- If entity “B” stops operating the building as a public library at any time during the 10-year period, it is required to repay a portion of the AED 10 million operating transfer to federal entity “A” based on the amount of time remaining in the 10-year period.

Analysis:

In this scenario, the AED 10 million transfer only relates to the right to have entity “B” operate the existing building as a public library over a 10-year period. Upon initial payment, federal entity “A” recognizes the AED 10 million as a transfer right asset. Federal entity “A” has determined that the transfer right extinguishes as the building is being operated as a library by entity “B” throughout the 10-year period. As the operation of the library consists of many different activities which are performed consistently from period to period, federal entity “A” derecognizes the transfer right asset evenly over the 10-year period and recognizes a transfer expense of AED 1 million per year.

Transitional Provisions

A federal entity shall apply this Standard using one of the following two methods:

- A. Prospectively to transfers occurring on or after the date of initial application arising from transactions with and without binding arrangements; or
- B. Retrospectively to each prior reporting period presented in accordance with FGAAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2026.

Technical References

IPSAS 48 - Transfer Expenses



Standard 49 - Retirement Benefit Plans

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Document Control

This document contains Federal Government Accrual Accounting Standards (FGAAS) relating to retirement benefit plans of the Federal Government of the United Arab Emirates.

Version	Issued on	Approved on	Comments
First Version			

Approved by: _____

Date: _____

Introduction

This document provides a detailed review of accounting standards applicable to the Federal Government with respect to retirement benefit plans.

This standard shall apply to any federal entity which, according to this standard, can be defined as:

- A ministry; including all ministries of the United Arab Emirates; or
- A federal entity.

Following is an explanation of symbols used in this Manual:

Symbol	Description
	Important information or definitions.
	List of key conditions requiring attention.
	Practical example to help understand an abstract text.

Definitions



The following terms are used in this Standard with the meanings specified:

Term	Definition
Actuarial present value of promised retirement benefits	Is the present value of the expected payments by a retirement benefit plan to participants attributable to service, as employees, already rendered.
Defined benefit plans	Are, for the purposes of this Standard, retirement benefit plans other than defined contribution plans.
Defined contribution obligations	Are the amounts owed to participants under the terms of a defined contribution plan.
Defined contribution plans	Are, for the purposes of this Standard, retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.
Funding	Is the transfer of assets to a federal entity (the retirement benefit plan) separate from the employer/sponsor to meet future obligations for the payment of retirement benefits.
Net assets available for benefits	Are: For defined benefit plans - the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits and, in a hybrid plan, the defined contribution obligation to participants; and For defined contribution plans - the assets of a plan less liabilities other than the defined contribution obligations to participants.
Participants	Are the members of a retirement benefit plan and others who are entitled to benefits under the plan.
Retirement benefit obligations	Are: For defined benefit plans - the actuarial present value of promised retirement benefits; and For defined contribution plans - the defined contribution obligations.
Retirement benefit plans	Are arrangements whereby an employer/sponsor provides benefits for participants on or after termination of service as employee (either in the form of an annual income and/or as a lump sum) when such benefits, or the contribution towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the employer's/sponsor's practices.

Term	Definition
Vested benefits	Are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.



Standard 49 - Retirement Benefit Plans

Standard 49 - Retirement Benefit Plans

This Standard of Accrual Basis of Accounting for the Federal Government was mainly developed based on the requirements of International Public Sector Accounting Standard 49 (FGAAS 49). It is worth mentioning that certain text of standard 49 have been rephrased in line with the requirements of UAE Federal Government.

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Objective



1. The objective of this Standard is to prescribe the accounting and reporting requirements for federal entities retirement benefit plans, which provide retirement benefits to public sector employees and other eligible participants.
2. This Standard applies to retirement benefit plans established by public sector employers/sponsors to provide retirement benefits (either in the form of an annual income and/or lump sum) primarily to former employees. It does not apply to old-age pensions provided through welfare or social security programs, nor to social security schemes that provide pensions to all citizens.
3. The objective of reporting by a defined benefit plan is to provide information about the financial resources and activities of the plan that is useful in assessing the relationship between the accumulation of resources (where the defined benefit plan is funded) and plan benefits over time and, in particular, the extent of any deficits. This objective is usually achieved by providing financial statements that include the following:
 - A. The recognition of the actuarial present value of promised retirement benefits (and for hybrid plans, the defined contribution obligation).
 - B. Actuarial information about the retirement benefit obligations, including the measurement basis.
 - C. A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions.
 - D. Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period.
 - E. A description of the investment policies; and
 - F. How a pay-as-you-go retirement benefit plan obligation is funded. Many public pension systems operate on a pay-as-you-go basis. This means that pensions paid to current pensioners are typically financed from contributions paid by current participants or sponsors during the same period in which pensions are paid.
4. The objective of reporting by a defined contribution plan is to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements that include the following:
 - A. The recognition of the defined contribution obligation.
 - B. A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions.
 - C. Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and
 - D. A description of the investment policies.

5. Given the prevalence and significance of retirement benefit scheme obligations primarily to current and former employees, to achieve the objective of improved transparency and accountability, this Standard requires retirement benefit plans to present, on the face of the statement of financial position as obligations, the estimated present value of promised retirement benefits based on the type of plan, with defined benefit plan obligations and defined contribution plan obligations presented differently.

Scope



6. A retirement benefit plan that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard.
7. A retirement benefit plan is a reporting entity. That is, it reports separately from the employer of the participants in the plan and separately from the entity that administers the plan (which may be the employer or an outsourced service provider). For example, where an entity administers more than one separate retirement benefit plan, this Standard applies to each of those plans and requires financial statements to be prepared for each retirement benefit plan.
8. Retirement benefit plans can also be classified as single employer, multi-employer, or federal plans. That classification may have an impact on the application of FGAAS 39, Employee Benefits, but does not alter the application of this Standard.
9. Some retirement benefit plans have sponsors other than employers; this Standard also applies to the financial statements of such plans.
10. Retirement benefit plans are sometimes referred to by various other names, such as 'pension schemes', 'superannuation schemes' or 'retirement benefit schemes'. This Standard regards a retirement benefit plan as a reporting entity separate from the employers of the participants in the plan. All other Standards only apply to the financial statements to the extent that they are not superseded by the requirements in this Standard.
11. This Standard deals with accounting and reporting requirements for the plan for all participants as a group. It does not deal with reports to individual participants about their retirement benefit rights.
12. This Standard deals with retirement benefits for public sector employees and other participants who are eligible to join the plan. It does not deal with other forms of employment benefits, such as employment termination payments, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security arrangements are also excluded from the scope of this Standard.
13. Retirement benefit plans are normally described as either defined benefit plans or defined contribution plans, each having their own distinctive characteristics. Occasionally plans exist that contain characteristics of both. For the purposes of this Standard, defined benefit plans include hybrid plans, which are retirement benefit plans that contain characteristics of both

defined benefit plans and defined contribution plans. References in this Standard to defined benefit plans shall be read as encompassing hybrid plans.

14. Many retirement benefit plans require the creation of separate funds, which may or may not have separate legal identity and may or may not have trustees, to which contributions are made and from which retirement benefits are paid. This Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.
15. Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.
16. Most retirement benefit plans are based on formal agreements. Some plans are informal but have acquired obligations as a result of employers' established practices. While some plans permit employers to limit their obligations under the plans, it is usually difficult for an employer to cancel a plan if employees are to be retained. The same basis of accounting and reporting applies to an informal plan as to a formal plan.

Recognition



17. For defined benefit plans, retirement benefit obligations owed to participants shall be recognized in the statement of financial position as a provision for the actuarial present value of the promised retirement benefits.
18. For defined contribution plans, retirement benefit obligations owed to participants shall be recognized in the statement of financial position as defined contribution obligations.
19. In a defined contribution plan, the amount to be recognized for obligations to participants equate to the net assets less, if required by the rules of the plan or other regulations, any retention for specified purposes (e.g., investment risks).



Measurement

Valuation of Plan Investments

20. Retirement benefit plan investments shall be measured at fair value.
21. The term 'plan assets' is an overarching term for all assets of the retirement benefit plan. Plan investments are a subset of plan assets and are those assets that are required specifically for their investment potential to fund payment of retirement benefit obligations.
22. Any plan investments that are financial instruments shall be measured at fair value in accordance with FGAAS 41, Financial Instruments. Other plan investments shall be measured at fair value in accordance with the applicable FGAAS (e.g., FGAAS 16, Investment Property). Other plan assets shall be measured in accordance with the applicable FGAAS.

Actuarial Present Value of Promised Retirement Benefits

23. The actuarial present value of promised retirement benefits for defined benefit plans shall be based on the benefits promised under the terms of the plan on service rendered to date using projected salary levels.
24. The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. This obligation reflects the expectation of future benefits determined using actuarial methods, and projected salaries are used because benefits are measured in the future against salaries applicable at the point the benefits become due.
25. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent actuarial valuation, updated for any material transactions and material changes in circumstances shall be used.
26. Actuarial valuations are not always obtained annually; some retirement benefit plan regulations might require actuarial valuations every three or five years, for example. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is likely to be suitable as a starting point for the current year's valuation. This requires the most recent actuarial valuation to be updated for any material transactions and other material changes in circumstances (including changes in market prices, interest rates, and expected inflation rate of projected salaries) up to the end of the reporting period.
27. Because a retirement benefit plan may have different risks and assumptions when compared to the employer/sponsor, an actuarial valuation may result in different valuations of the same defined benefit obligations for the retirement benefit plan and for the employer/sponsor. For example, the discount rate applied by the employer/sponsor may differ from that of the retirement benefit plan as a result of different risks related to the employer/sponsor compared to the plan. When the actuarial valuation performed for the employer/sponsor is used as a base, any necessary adjustments shall be made for determining the obligation of the retirement benefit plan.

Applicability of Other FGAAS

28. Unless specifically overwritten by this Standard, all other FGAAS apply to the financial statements of retirement benefit plans when applicable. For example, if a retirement benefit plan is required or elects to make their approved budget(s) publicly available, FGAAS 24, Presentation of Budget Information in Financial Statements shall also apply.



Presentation and Disclosure

Presentation of Financial Statements

29. A retirement benefit plan, whether defined benefit or defined contribution, shall present the following:
 - A. A statement of financial position.

- B. A statement of changes in net assets available for benefits.
 - C. A cash flow statement; and
 - D. Notes to the financial statements.
30. A retirement benefit plan shall also explain the changes in retirement benefit obligations to participants either by:
- A. Presenting a statement of changes in retirement benefit obligations; or
 - B. Disclosing in the notes-to the financial statements a reconciliation between the opening and closing retirement benefit obligation balances.

Financial Statement Content

Statement of Financial Position

31. The face of the statement of financial position shall include line items that present the following amounts (if applicable and as appropriate, but not limited to):
- A. Plan investments (suitably classified).
 - B. Contributions receivable.
 - C. Other assets.
 - D. Benefits due and payable.
 - E. Any other liabilities excluding retirement benefit obligations to participants.
 - F. Net assets available for benefits.
 - G. Provision for actuarial present value of promised retirement benefits in a defined benefit plan.
 - H. Defined contribution obligation to participants; and
 - I. Excess or deficit.
32. Plan investments are to be shown on the face of the statement of financial position and suitably classified. This requires grouping assets of a similar nature - for example, as equities, fixed income securities, and investment funds.
33. The statement of financial position is required to present the actuarial present value of promised retirement benefits and defined contribution obligation to plan participants below net assets available for benefits. Inclusion of this obligation(s) addresses the principal objective of this Standard to increase the transparency and accountability about retirement benefit plan obligations of federal entities to participants.
34. This line item differs from the presentation of liabilities for benefits due and payable to participants (if applicable). Liabilities for benefits due and payable to participants are shown above the net assets available for benefits and only include those amounts that are immediately payable. For example, it may represent a monthly defined benefit pension payment yet to be paid or a withdrawal from a defined contribution plan requested by the participant that is yet to be paid.



Example 49.1 - Presentation of Statement of Financial Position

The following illustrative examples (IE) provide examples of styles and formats for retirement benefit plans to present financial statements that are consistent with FGAAS 49. These IEs are not comprehensive nor mandatory. Other styles and formats are acceptable if they meet the requirements of this FGAAS.

These illustrative examples show three potential ways in which the required financial statements can be presented, depending on the judgment made about how to present contributions and benefits.

IE 1 relates to a defined benefit plan where the contributions and benefits are treated as revenue and expenses and all cash flows are treated as operating cash flows.

IE 2 relates to a defined benefit plan where the contributions are treated as a liability and the benefits as a reduction in that liability. Regarding cash flows, returns on investments, administrative payments, investment payments, are operating cash flows. Purchases and sales of plan investments are investing activities. Contributions and benefits, transfers to and from other plans, are financing activities.

IE 3 relates to a defined contribution plan where the contributions and benefits are treated as revenue and expenses. Regarding cash flows, return on investments, administrative payments, contributions received, benefits paid (and associated receipts and payments), are operating activities. Purchases and sales of plan investments are investing activities.

Statement of financial position

As of December 31, 2026

	IE1	IE2	IE3
	(DB)	(DB)	(DC)
Assets			
Cash and cash equivalents	X	X	X
Plan investments (suitably classified)	X	X	X
Accrued interest and dividends receivable	X	X	X
Contributions receivable	X	X	X
Other assets	X	X	X
Total Assets	X	X	X
Liabilities			
Payables	X	X	X
Benefits due and payable	X	X	X
Other liabilities	X	X	X
Total liabilities excluding benefit obligations to participants	X	X	X
Net assets available for retirement benefits	X	X	X
Provision for the actuarial present value of promised retirement benefits	X	X	N/A
Defined contribution obligation	N/A*	N/A*	X
Other reserves	X	X	X
Excess or deficit of funding	X	X	X

*If this was a hybrid plan there would also be an amount for defined contribution obligations

Statement of Changes in Net Assets Available for Benefits

35. The statement of changes in net assets available for benefits shall present opening and closing balances and include line items that present the following amounts, (if applicable and as appropriate, but not limited to):
- A. Employer/sponsor contributions.
 - B. Participant contributions.
 - C. Investment income.
 - D. Other income.
 - E. Benefits paid or payable (analyzed, for example, as retirement, death and disability benefits, or lump sum payments).
 - F. Transfers from and to other plans.
 - G. Administrative expenses.
 - H. Other expenses; and
36. The line items shown in the statement of changes in net assets available for benefits are only those that are directly attributable to the plan. The nature of those items will largely depend on the terms of a plan. For example, some retirement benefit plans may specify that some administrative costs (such as the salaries of plan's investment managers) are paid out of investment income.



Example 49.2 - Presentation of Statement of Changes in Net Assets Available for Benefits

Continued from Example 49.1

Statement of changes in net assets available for benefits for the year ended December 31, 2026

	IE1	IE2	IE3
	(DB)	(DB)	(DC)
Net assets available for benefits (beginning of the year)	X	X	X
Investment earnings			
Net change in fair value of plan investments	X	X	X
Interest revenue	X	X	X
Investment revenue	X	X	X
Dividend revenue	X	X	X
Other revenue	X	X	X
	X	X	X
Contributions			
Employer	X	X	X
Participant	X	X	X
Benefits accrued	X	X	N/A
Funding from sponsor*	X	X	X
	X	X	X
Total increase in net assets available for benefits	X	X	X
Benefits paid	X	X	X



Example 49.2 - Presentation of Statement of Changes in Net Assets Available for Benefits

Investment related expenses	X	X	X
Operational and administrative expenses	X	X	X
Other expenses	X	X	X
Total decrease in net assets available for benefits	X	X	X
Transfers to and from other plans	X	X	X
Net increase/decrease in assets available for benefits	X	X	X
Net assets available for benefits (end of the year)	X	X	X

*This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

Cash Flow Statement

37. A retirement benefit plan shall prepare a cash flow statement, using the direct method, in accordance with FGAAS 2, Cash Flow Statements.
38. When preparing the cash flow statement, a retirement benefit plan shall consider the requirements and guidance in FGAAS 2, Cash Flow Statements. This Standard requires cash flows to be reported using the direct method, because the structure of the other financial statements makes it unlikely that an annual surplus or deficit will be reported, making the indirect method impracticable.
39. Individual retirement benefit plans may treat certain transactions differently. For example, contributions may be revenue or a liability to the participant, depending on the terms of the retirement benefit plan. Therefore, the classification of transactions as operating, investing, or financing cash flows may differ between retirement benefit plans. However, the classification adopted shall be applied consistently by a retirement benefit plan.



Example 49.3 - Presentation of Cash Flow Statement

Continued from Example 49.1

Cash flow statement

For the year ended December 31, 2026

	IE1	IE2	IE3
Cash flows from operating activities	(DB)	(DB)	(DC)
<i>Receipts</i>			
Sale of plan investment	X	N/A	N/A
Interest received	X	X	X
Dividends received	X	X	X
Other receipts	X	X	X
Employer contributions received	X	N/A	X
Participant contributions received	X	N/A	X
Funding received from sponsor*	X	N/A	X



Example 49.3 - Presentation of Cash Flow Statement

Payments

Purchase of plan investments	X	N/A	N/A
Investment related payments	X	X	N/A
Participant benefits paid	X	N/A	X
Operational and administrative payments	X	X	X
Other payments	X	X	X
Transfers to and from other plans	X	N/A	N/A
Net cash inflows (outflows) from operating activities	X	X	X

Cash flows from investing activities

Purchase of plan investments	N/A	(X)	(X)
Sale of plan investment	N/A	X	X
Investment related expenses	N/A	N/A	X
Transfers to and from other plans	N/A	N/A	X
Net cash inflows (outflows) from investing activities	N/A	X	X

Cash flows from financing activities

Employer contributions received	N/A	X	N/A
Participant contributions received	N/A	X	N/A
Funding received from sponsor*	N/A	X	N/A
Participant benefits paid	N/A	X	N/A
Transfers to and from other plans	N/A	X	N/A
Net cash inflows (outflows) from financing activities	N/A	X	N/A

Net increase (decrease) in cash and cash equivalents

	X	X	X
Cash and cash equivalents at the beginning of the year	X	X	X
Cash and cash equivalents at the end of the year	X	X	X

*This funding is generally related to unfunded plans and may be made by, for example, a central government. It is separate from contributions from the employer.

Changes in Retirement Benefit Obligations

40. Paragraph 30 requires a retirement benefit plan to present information that explains the changes in retirement benefit obligations to participants either as a financial statement or as a reconciliation in the notes to the financial statements.
41. This statement or note shall present opening and closing balances and the following information (if applicable and as appropriate, but not limited to):
 - A. Amendments to the plan (e.g., changes in participant benefits).
 - B. Changes in the nature of the plan (e.g., a merger with another plan).

- C. Participant benefits allocated to defined contribution participant accounts.
- D. Net changes to defined benefit participant-accrued benefits (e.g., actuarial movements).
- E. Employer/sponsor contributions.
- F. Participant contributions.
- G. Benefits paid; and
- H. Administration expenses.

Statement of Changes in Retirement Benefit Obligations or Disclosure of Reconciliation Between the Opening and Closing Retirement Benefit Obligation Balances

42. The structure of a retirement benefit plan - such as whether it is a defined benefit plan or defined contribution plan and whether it is funded or pay-as-you-go - may determine how contributions and benefits are accounted for.
43. Some retirement benefit plans account for contributions and benefits as revenue and expenses respectively, while others account for contributions and benefits as changes in liabilities to participants. In some cases, the structure of retirement benefit plans might mean that a mixed approach is taken to accounting for contributions and benefits. Depending on the circumstances, the line items for contributions and benefits paid may need to be shown differently on the face of the statement of changes in retirement benefit obligations (see the Illustrative Examples) or in the disclosure of the reconciliation between the opening and closing retirement benefit obligation balances.



Example 49.4 - Presentation of Changes in Retirement Benefit Obligations Statement

Continued from Example 49.1

Statement of changes in retirement benefit obligations for the year ended December 31, 2026

	IE1 (DB)	IE2 (DB)	IE3 (DC)
Retirement benefit obligations (beginning of the year)	X	X	X
Contributions			
Employer	N/A	X	X
Participant	N/A	X	X
Funding from sponsor	N/A	X	X
Transfers from other plans	X	X	X
Changes in actuarial assumptions	X	X	N/A
Benefits accrued	X	X	N/A
Total increase in retirement benefit obligations	X	X	X
Benefits paid	X	X	X
Transfers to other plans	X	X	X
Total decrease in retirement benefit obligations	X	X	X
Retirement benefit obligations (end of the year)	X	X	X

Example 49.4 - Presentation of Changes in Retirement Benefit Obligations Statement

NOTE: As an alternative to the statement of changes in retirement benefit obligations, this information can be provided in the notes to the financial statements.

Disclosure



44. The notes to the financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall disclose the following:
 - A. A summary of significant accounting policies.
 - B. A description of the plan (see paragraph 46) and the effect of any changes in the plan during the period.
 - C. The basis for the valuation of all plan assets, including fair value measurement disclosure per class of plan assets as required by the applicable FGAAS.
 - D. Details of any single investment exceeding either 5 percent of the net assets available for benefits or 5 percent of any class or type of security.
 - E. Details of any investment in the employer/sponsor.
 - F. Liabilities other than the provision for actuarial present value of promised retirement benefits or the defined contribution obligation to participants; and
 - G. A description of the funding policy, including any obligations by the employer/sponsor to meet any actuarial determined shortfall in assets in a funded retirement benefit plan.
45. For defined benefit plans the following shall also be disclosed in the notes to the financial statements:
 - A. The actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits.
 - B. A description of the:
 - i. Significant actuarial assumptions made; and
 - ii. Method used to calculate the actuarial present value of promised retirement benefits.
 - C. The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits; and
 - D. The date of the actuarial valuation and when the next valuation will be undertaken.
46. A retirement benefit plan's financial statements shall contain a description of the plan. It shall contain the following:
 - A. The name(s) of the employer(s)/sponsor(s) and the participant groups covered.

- B. The number of participants receiving benefits and the number of other participants, classified as appropriate.
- C. The type of plan- defined contribution or defined benefit.
- D. A note as to whether participants contribute to the plan.
- E. A description of the retirement benefits promised to participants.
- F. A description of any plan termination terms; and
- G. Changes in items (A) to (F) during the period covered by the financial statements.

Effective Date

The provisions of these Standards shall apply after approval of the Federal Government Accrual Accounting Standards by the Council of Ministers.

A federal entity shall apply this Standard for annual financial statements beginning on or after January 1, 2026.

When a federal entity adopts the accrual basis FGAAS of accounting as defined in FGAAS 33, for financial reporting purposes subsequent to this effective date, this Standard applies to the retirement benefit plan's financial statements covering periods beginning on or after the date of adoption of FGAAS.

Transition

This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied. However, when a retirement benefit plan that has used another international or national accounting standard dealing with retirement benefit plans first applies this Standard, it shall provide restated comparative financial statements in accordance with FGAAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Technical References

IPSAS 49, Retirement Benefit Plans