Hessian Ministry of Finance

HESSEN

Result report on the IPSAS-Project

Hessian Ministry of Finance

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Executive Summary

Against the background of the development of European public sector accounting standards and the question raised, if the already existing international accounting rules – the International Public Sector Accounting Standards (IPSAS) – provide an adequate basis for such a set of rules, the federal state of Hesse has examined in how far IPSAS allow fit-for purpose accounting as part of project to prepare trail IPSAS financial statements.

To do so, four evaluation criteria have been developed under consideration of the primary objectives and aims of public sector accounting (accountability and information). Based on these the adequateness (fit-for-purpose) of the separate IPSAS as well as the IPSAS Conceptual Framework has been evaluated.

As a result of the assessment, it can be stated that overall ***IPSAS allow fit-for-purpose accounting***. It can be highlighted that the accounting principles considered as particularly worthy of protection from a German perspective, such as the prudence principle, can also be maintained when applying IPSAS.

From a practical perspective, it can be stated that increased transitional work is connected particularly to the topic areas of financial instruments, property plant and equipment, leasing and the disclosures in the notes. The greatest value impact came from the changed measurement of pension and benefit provisions.

In respect to the ongoing specialist discussion, account is to be taken of the fact that Directive 2013/34/EU has also found its way into national accounting law. Consequently, via the standards on government accrual accounting (GPSAS), it is also being integrated into public-sector accounting. Thus an ***"internationalised" HGB in Germany is the basis for*** both private sector and ***public sector accounting***. Near-term harmonisation of accounting for the public sector in the EU would also be conceivable – possibly as an initial step – on the basis of the EU Accounting Directive (2013/34/EU).

A. Background and objective

Article 16 (3) of Council Directive 2011/85/EU on requirements for the budgetary framework of the Member States dated 8 November 2011[1] instructed the European Commission to assess the suitability of International Public Sector Accounting Standards (IPSAS) for the Member States.

With the trial preparation of annual financial statements following the principles of IPSAS, the federal state of Hesse investigated whether fit-for-purpose public-sector accounting is also possible on the basis of IPSAS. The practice-based empirical values are to be included in the current discussion process to develop new uniform European accounting standards for the public sector ("European Public Sector Accounting Standards" – EPSAS).

Discussion in Germany previously dominated by budget management

Traditional cash accounting in Germany at the level of federal government, federal states and local authorities[2], which remains established even with the opening provided by the general principles on budgetary law [3] for accrual based accounting on the foundation of Act to Modernise the Budgetary Principles Act and to Change Other Acts dated 31 July 2009[4] with an optional budgeting style, has since contributed to a heterogeneous picture of accounting at the different state and municipal levels.[5] The audit mandate granted with Article 16 (3) of Directive 2011/85/EU to examine the suitability of IPSAS for public-sector accounting in the Member States as new harmonised style of accounting and the subsequent report of the EU Commission dated 6 March 2013[6], which recommends development of EPSAS based on the existing IPSAS[7] as reference value, resulted in a central debate in Germany on the advantages and disadvantages of accrual accounting, a possible adverse impact on the parliamentary budget law and the role of external parties in setting standards for public sector accounting.

[1] Official Journal L 306 dated 23 Nov. 2011, page 41

[2] *Worms/Tegeler*: Die Eröffnungsbilanz des Landes Hessen, DÖV 2010, page 542

[3] Act on the Principles of Budget Law of the Federal State and the States (Budgetary Principles Act) dated 19 August 1969 BGBl. I S. 1273; last amended by Article 10 Act dated 14 August 2017 BGBl. I page 3122

[4] Act to Modernise the Budgetary Principles Act and to Change Other Acts (German Budgetary Principles Act) dated 31 July 2009, BGBl. I 2009, 2580.

[5] Cf. *Bott/Rüdiger*: Doppik auf staatlicher Ebene: Bundesländer im Vergleich, DÖV 2021, page 32 and *Burth/Egger*: Stand der Doppik-Einführung in den deutschen Kommunen, ZKF 2021, 30.

[6] EU Commission dated 6 March 2013, COM (2013) 114 final, Report from the Commission to the Council and the European Parliament, Brussels 2013, https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1410447825715&uri=CELEX:52013DC0114

[7] Cf. for more details *Bott/Rüdiger*, Der Konzern 2020, 471.

IPSAS: Critical assessment from afar

Up to now the importance of the parliamentary budget law on the intended development of EPSAS, which was also materially influenced by resolutions of the Bundestag[8] and Bundesrat[9], has only inadequately answered the key question to be examined relating to a fit-for-purpose public-sector accounting on the basis of IPSAS.

Indeed a dependence of the EPSAS which are still be developed in line with the existing IPSAS is – especially in the context of the domestic discussion – has been criticised due to the alignment to international accounting standards, because they do not have a closed set of rules in comparison to the national HGB accounting requirements, underline the usefulness of the data for decision making from the perspective of an investor with a strong capital market orientation and may call into question public-sector accounting which is suitable for the users.[10]

Project: IPSAS financial statements for the federal state of Hesse

With the one-off trial of IPSAS financial statements in 2019, the federal state of Hesse wants to make a factual practiced-based contribution for further discussion and to pursue the key question in the context of developing EPSAS as to whether fit-for-purpose public-sector accounting is possible, also on the basis of IPSAS.

The present report on results summarises the insights of the preparation process related to assessing the IPSAS in respect to fitness for purpose of the accounting. In addition, the insights of particular interest gained in the practical implementation of preparing IPSAS financial statements are explained.

[8] Bundestag, resolution dated 27 June 2013, BT printed matter 17/14148 and recommended resolution of the Budget Committee dated 3 March 2015, BT printed matter 18/4182.

[9] Bundesrat resolution dated 14 Feb. 2014, Bundesrat printed matter 811(13(B).

[10] Cf. et. al. *Weyland/Nowak*, EPSAS Update: EPSAS als Chance für eine Harmonisierung der Rechnungslegung in Deutschland and Europa, Der Konzern 2016, 558, 566 f. with further references, Bundestag, resolution dated 27 June 2013, BT printed matter 17/14148 and recommended resolution of the Budget Committee dated 3 March 2015, BT printed matter 18/4182, Bundesrat, resolution dated 14 February 2014, Bundesrat printed matter 811(13 (B) and Federal Audit Office, report in line with Section 99 BHO dated 15 November 2017, BT printed matter 19/60.

B. Fit-for-purpose public-sector accounting

1. Objective and users

Fit-for-purpose public-sector accounting is ensured, if, with its fundamental principles, accounting does justice to the objectives of public-sector accounting.

Here the examination of the function of accountability of a German federal state as regional authority places a focus on the legislative and executive as primary users. Users of public-sector accounting, which in this respect may not be limited to the function of a budget statement within the meaning of a budget settlement in line with budgetary law, on a widely understood basis, are also and particularly citizens and inhabitants of the regional authorities as general public, alongside elected citizen representatives, administrations, supervisory authorities, statistical offices, supranational institutions and finally the capital market.[11]

The primary purpose of ***accountability*** is linked to a high level of objectifiability and to non-arbitrary, reliable and prudent accounting on the previous budget year. Retrospective public sector accountability thus represents a dominant objective. The provision of future-oriented ***information*** with decision-making usefulness accompanies objectified accountability and can appropriately supplement and complete the retrospective information with forecast estimates, particularly in the notes or in the management report.[12]

As a result, it can be stated that public-sector accounting – aligned to the basis of a current understanding – serves both accountability for the previous budget year – in particular for citizens as fiduciaries – and the provision of relevant information on net assets, financial position and results of operation, which, with a view to future development, also provides scope for the inclusion and explanation of rewards and risks, and can distinguish itself from a purely objectifiable analysis of the situation on a forecast basis, which however must be presented as such on a verifiable basis and needs explanations.

HGB as benchmark for fit-for-purpose accounting, (also) in the public sector…

The accounting policies and principles to be secured, taking account of the above objectives, relate, according to the national understanding based on national commercial accounting law as relevant benchmark, to the primary principles of reliability and objectivisation as well as to the commercial prudence principle.

Both the Bundestag[13] and Bundesrat[14] and the Presidents Conference of the federal/state courts of auditors as well as the EPSAS federal/state working group[15] formulated substantive proximity to the traditional commercial accounting required as a material request. National commercial accounting law, as applied to large corporations in line with Sections 238 ff., 264 ff. HGB and also for government accrual accounting in line with Sections 7a, 49a HGrG, according to a national understanding indisputably secures fit-for-purpose accounting, not only for private-sector companies, but also for public-sector financial reporting.

…with ongoing approximation to international accounting standards…

In this process it should be noted that also national commercial accounting law, with its high degree of objectivisation, the prudence principle with its specification in the realisation and imparity principle, the general assessment at

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[11] Cf. also Hessen Court of Auditors, EPSAS Framework draft, Chapter 2.4

[12] Cf. also Hessen Court of Auditors, EPSAS Framework draft, Chapter 2.6.

[13] Bundestag, resolution dated 27 June 2013, BT printed matter 17/14148 and recommended resolution of the Budget Committee dated 3 March 2015, BT printed matter 18/4182.

Bundesrat resolution dated 14 February 2014, Bundesrat printed matter 811(13(B).

[15] BLAK EPSAS dated 5 January 2017, ZKF 2017, 84; as appendix to inform the German government dated 27 March 2017, Bundesrat printed matter 272/17.

cost, uses fair value approaches only in exceptional cases[16] and thus also serves as basis for distribution measurement and tax assessment, has seen an ongoing approximation to international accounting standards in recent years.

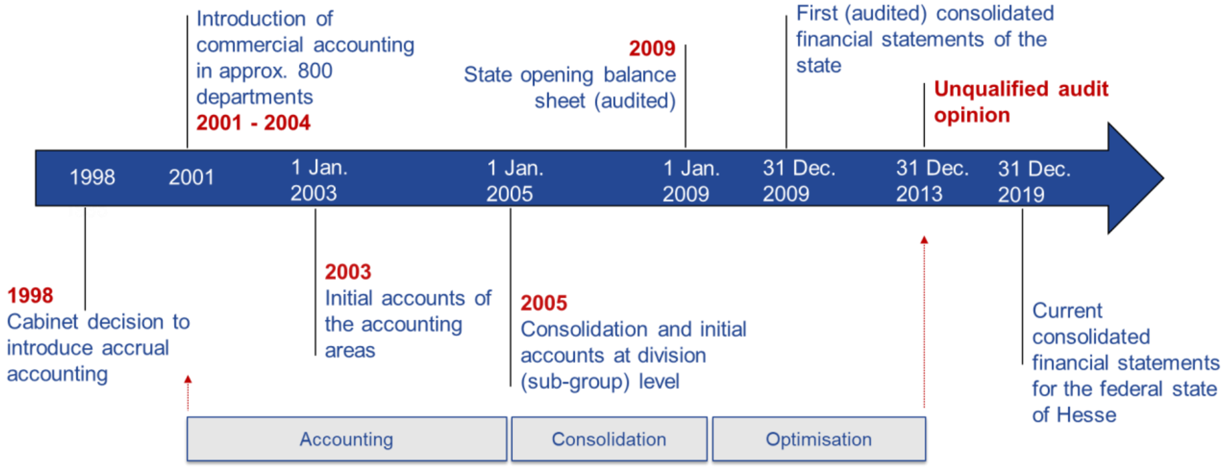

Diagram: National commercial accounting law with approximation to international accounting standards

As early as the *Accounting Directive Act (BiRiLiG)* dated 19 December 1985[17], which served to implement the Fourth, Seventh and Eighth Directives to Harmonise Accounting in the Member States of the EU and in this context translated particularly the minimum requirements for accounting for corporations on the basis of European directives into German law, concepts of international accounting practise found their way into continental European law, including national accounting law. An increase of the informational function of the financial statements in line with commercial law, intended in internationalising accounting law, which was accompanied by a temperate approximation of HGB to IAS/IFRS, was widened by the legislator, initially in the context of the *Accounting Law Modernisation Act (BilMoG)* dated 26 May 2009[18] with notable innovations,[19] and continued, most recently with the *German Accounting Directive Implementation Act (BilRUG)* dated 17 July 2015[20]. With the BilRUG dated 17 July 2015, the legislator implemented *Directive 2013/34/EU* dated 26 June 2013[21] into German law as new *EU Accounting Directive* for the separate and consolidated financial statements. EU Accounting Directive 2013/34 dated 26 June 2013 emphasises that the annual financial statements are to be prepared in line with the *prudence principle and should provide* a *true and fair value of the net assets, financial position and results of operations*.[22] The adjustments – most recently on the basis of the Act to Implement Accounting Directive 2013/34/EU - underline the internationalised foundation, based on current national accounting law which is already aligned to IAS/IFRS.[23] In line with Section 315e (3) HGB, it is thus possible for all controlling companies to prepare their consolidated financial statements in line with IFRS with discharging effect.

...as guideline for developing EPSAS

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[16] Cf. also Directive 2013/34/EU dated 26 June 2013, Official Journal L 182/21, Sections 18 f.

[17] Act to Implement the Fourth, Seventh and Eighth Directives of the European Council to Coordinate Company Law dated 19 December 1985, BGBl. I 1985, 2355.

[18] Cf. Bundestag printed matter 16/10067, 34, for more information cf. also *Böcking*, Zur Bedeutung der Informationsfunktion im Rahmen der öffentlichen Rechnungslegung, in Wallmann / Nowak / Mühlhausen / Steingässer, Moderne Finanzkontrolle and öffentliche Rechnungslegung, DS Eibelshäuser, 2013, 433 ff.

[19] Act to Modernise Accounting Law, dated 26 May 2009, BGBl. I page 1102, Cf. Bundestag printed matter 16/10067, 33.

[20] Act to Implement EU Directive 2013/34 dated 26 June 2013 on annual financial statements, consolidated financial statements and related reports of companies of specific legal forms dated 17 July 2015, BGBl.I 2015, 1245.

[21] Official Journal L 182 / 19ff dated 26 June 2013

[22] Directive 2013/34/EU dated 26 June 2013, Official Journal. L 182/20, Section 9

[23] For more information on the EU Accounting Directive 2013/34/EU and its implementation on the basis of the BilRUG dated 17 July, 2015 cf. *Scheffler* in Böcking/Gros/Oser/Scheffler/Thormann, Beck´sches Handbuch der Rechnungslegung, Vor A Rechnungslegungsvorschriften: Entwicklung und Überblick, notes 20 ff., 37 ff.

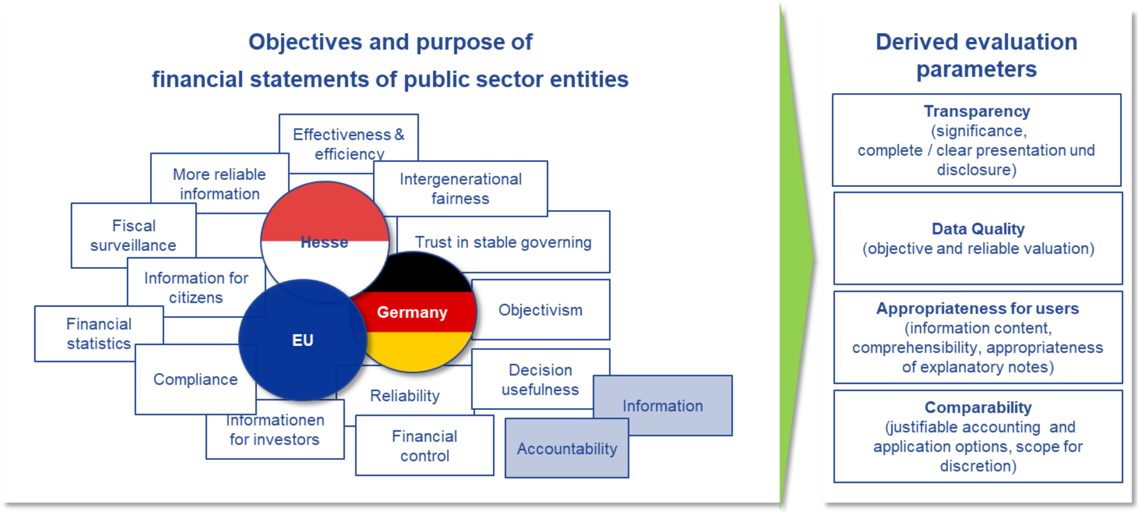
Overall requirements in relation to fit-for-purpose public-sector accounting in line with a national understanding are the Bundestag *Budget Committee* resolution dated 25 February 2015[24], the Bundesrat resolution dated 14 February 2014[25] and the *EPSAS* federal/state working group (BLAK) position paper dated 5 January 2017[26] which are summarised as follows:

- New European accounting regulations must especially ensure complete recognition and measurement of assets and liabilities including the implicit debt in the area of pensions, at the same time guaranteeing ***transparency and comparability*** for which standard benchmarks must be defined;
- Account must be taken of the principles relevant in Germany of ***objectivisation, accountability, appropriateness*** and control, while *options and judgement* are to be largely excluded, because only in this way can comparable results be achieved in national government and European accounting.

2. Evaluation parameters

On the basis of the objectives of public-sector accounting and with the focus of the above cited primary purposes of ***accountability*** and ***providing information***, in the context of the project four evaluation criteria were derived, on the basis of which the fitness-for-purpose of the individual IPSAS and the IPSAS Conceptional Framework was assessed.

The evaluation criteria were defined as follows:



— ***Transparency:*** Transparency of a regulation is confirmed if the application of the accounting standards results in transactions and facts impacting the net assets, financial position and results of operations of the reporting unit being clearly and unambiguously evident. Examples for transparency could be (separate) recognition in the statement of financial position and the statement of profit or loss or also mandatory (separate) disclosures of explanations in the notes. The regulations to be assessed in connection with transparency relate particularly to the scope of the standards and the regulations on recognition and disclosures in the notes.

— ***Data quality:*** When expenses and revenue are allocated to the periods in which they were economically incurred and when the assets, liabilities, expenses are revenue contained in the financial statements are

[24] Cf. recommended resolution of the Bundestag Budget Committee dated 25 February 2015, comment to Bundesrat in line with Article 23 (2) Basic Law, Bundestag printed matter 18/4182

[25] Bundesrat printed matter 811/13

[26] BLAK EPSAS dated 5 January 2017, ZKF 2017, 84; as appendix to inform the German government dated 27 March 2017, Bundesrat printed matter 272/17.

recognised on the basis of objectifiable and reliable information, it can generally be concluded that high data quality is generated. Examples include expenses and revenue on an accrual basis, the complete measurement of assets and liabilities as at the reporting date (e.g. fair value measurement) and concrete specifications on calculation in the context of measurement. The focus areas relating to the assessment on data quality are the regulations in the standards on initial and subsequent measurement of assets and liabilities included and the measurement of expenses and revenue.

— ***Appropriatnesse for users:*** In order to be appropriate for users, the disclosures/explanations in the financial statements and/or the notes should be structured in such a way that in particular the government and parliament can verify them and, if necessary, take relevant decisions on the basis of the data/information contained. In addition, it should contribute to the financial statements serving as an information medium for its citizens. The particular focus areas for the assessment of being appropriate for users are the character and preparation of disclosure; pure scope is not to be considered a decisive criterion. Overall, the aim should be understandable explanations which reduce complexity. Here particular attention was given to the regulations on recognition and disclosures in the notes for IPSAS.

— ***Comparability:*** The introduction of EPSAS aims to improve comparability of financial statements of different entities (e.g. federal states, states). Relevant when assessing this parameter are particularly allowing options, including an assessment of their appropriateness, the existence of sufficient concrete details and possible regulatory gaps.

On the basis of the assumption stated above, that accounting and reporting under commercial law represents fit-for-purpose accounting, the assessment parameters were generally applied to differences between HGB and IPSAS identified in the categories scope, recognition, measurement, presentation and disclosures in the notes. An exception here is the IPSAS Conceptional Framework, as a corresponding national regulation is not known.

Taking account of all four assessment parameters, in the overall view an assessment is given of the fitness for purpose of the respective IPSAS and the IPSAS Conceptional Framework.

C. Findings in relation to the IPSAS

Introductory remarks

The following chapters explain the assessment on the fitness of purpose of the individual IPSAS – sub-divided into the topic areas

- Presentation of the financial statements and selected disclosures in the notes (IPSAS 1, 2, 3, 4, 20 and 34)
- Consolidation and interests in other entities (IPSAS 35-38 and 40)
- Assets (IPSAS 5, 12, 13, 16, 17, 27, 31 and 32)
- Impairment (IPSAS 21 and 26)
- Financial instruments (IPSAS 28, 41 and 30)
- Provisions (IPSAS 19, 39 and 42)
- Revenue and expenses (IPSAS 9, 11, 23 and ED 72)
- Supplementary information in the annual financial statements (IPSAS 22 and 24)
- IPSAS Conceptual Framework

As basis for this assessment, there is initially a short overview on the respective regulations of the relevant IPSAS which is then complemented with an overview of the material theoretical differences between the national accounting regulations under commercial law and IPSAS. Here it should be noted, that when listing the differences between German commercial law and IPSAS, account is also taken of the German Accounting Standards as a standard-setting statement of existing HGB regulations.

Comments on the IPSAS relate primarily to the legal regulations included at the beginning of each standard – which generally are divided into the sections of scope, definitions, recognition, measurement, presentation and disclosures in the notes. These are supplemented with the “Basis for Conclusion” (BC) and an “Implementation Guidance” (IG) which are attached to the standards.

1. Presentation of the financial statements and selected disclosures in the notes

1.1 Summary

This chapter assesses the following IPSAS which are to be applied in presenting the financial statements and selected disclosures in the notes:

IPSAS Standard
IPSAS 1: Presentation of Financial Statements
IPSAS 2: Cash Flow Statements
IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors
IPSAS 4: The Effects of Changes in Foreign Exchange Rates
IPSAS 20: Related Party Disclosures
IPSAS 34: Separate Financial Statements

To summarise, it should be noted that the relevant IPSAS for the presentation of the financial statements and for selected disclosures in the notes, as listed above, are assessed predominantly as fit for purpose. The key positive and negative factors which result in this assessment are shown in the diagram below.

Fit-for-purpose accounting

- Closeness to public-sector budget view on the basis of **classification of statement of assets and liabilities by term**
- Transparent and objectifiable presentation of interests in the separate financial statements on the basis of **measurement option (cost, equity method or fair value)**
- Clear and explicit view of **transactions with related parties and key management personnel** on the basis of extensive disclosures in the notes

- Negative impact on comparability as a result of merely a **rough classification schedule for the statement of assets and liabilities and the statement of financial performance**
- Restriction of comparability of the separate financial statements by possible **measurement differences in the presentation of interests in separate financial statements**

1.2 IPSAS 1: Presentation of Financial Statements

1.2.1 Theoretical background

Scope

In line with IPSAS 1.2, the standard applies to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs. The standard applies to both individual and consolidated financial statements (IPSAS 1.4).

Presentation

In line with IPSAS 1.21, a complete set of IPSAS financial statements comprises the following elements: a statement of financial position, a statement of financial performance, a statement of changes in net assets/equity, a cash flow statement and a comparison of budget and actual amounts and notes.

IPSAS 1 stipulates the following principles of reporting:

Accrual basis	Except in the cash flow statement, in the financial statements the assets, liabilities, net assets/equity, revenue and expenses should be presented on an **accrual basis**. (IPSAS 1.7)
Frequency of reporting	An entity should **report at least annually**. If the reporting date is changed or the reporting period is longer or shorter than one year, specific information shall be provided. (IPSAS 1.66)
Compliance with all standards	If all standards are applied, a **fair presentation of the results and the financial position is assumed**. If in extremely rare circumstances where it is necessary to depart from the requirements of a standard, the **regulatory framework and the non-prohibition** of such a departure is decisive as to whether a different regulation should be used or whether only disclosures in the notes are necessary. (IPSAS 1.27-.37)
Going concern	Financial statements should be prepared on the **assumption** of the ability to continue as a **going concern**. On the other hand, if there is the intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so, then there should be a different assessment and the fact shall be disclosed. (IPSAS 1.38-.41)
Presentation continuity	The presentation and classification of items in the financial statement should be **retained from one year to the next**, unless, for example, following a change in the nature of operations, another presentation would provide better information or an IPSAS requires a change. (IPSAS 1.42)
Materiality and aggregation	**Items in the financial statement may be combined** as long as material items of a dissimilar nature or function are presented separately. Specific disclosure requirements need not be satisfied if the information is immaterial (this also applies to disclosure designated as "minimum information"). (IPSAS 1.45-.47)
Offsetting	**Offsetting is not permitted** unless required or permitted by an IPSAS. (IPSAS 1.48-.52)
Minimum comparative information	For **all amounts** reported in the financial statements, a **previous period is to be presented** and for all amounts reported in the notes comparative preceding year information is to be provided. Narrative and **descriptive information shall be provided** if it is important to understanding the items in the current period. (IPSAS 1.53-.54) With retrospective amendments, the **comparative amounts are to be reclassified** unless this is impractical. (IPSAS 1.55)
Additional comparative information	Individual elements of the financial statements can **additionally** be provided for further periods. Notes are to be provided accordingly.

The individual elements of the financial statements are structured as follows:

- **Balance sheet**
  - Presentation of current and non-current except when a presentation based on liquidity provides more relevant information (IPSAS 1.70)
  - Detailed requirements related to current and non-current for assets and liabilities (IPSAS 1.71)
  - Minimum presentation for the breakdown (IPSAS 1.88)
  - Disclosure on equity (or in the notes) (IPSAS 1.95)
- **Statement of financial performance**
  - Presentation of one or two statements (IPSAS 1.108)
  - Minimum presentation for the breakdown (IPSAS 1.102), extraordinary items not permitted
  - Breakdown either according to nature of expenses or function (IPSAS 1.109)
  - Material items are to be disclosed and described separately (IPSAS 1.106)
  - Presentation on specific items can also be made in the notes (IPSAS 1.108, .109, .117)
- **Statement of changes in net assets / equity**
  - Specification of the columns and rows to be shown (IPSAS 1.118, .119)
  - Separate disclosure by shares attributable to the owners of the controlling entity and the non-controlling interest (IPSAS 1.118 c))
  - Disclosures on dividends, including dividend per share (optionally also in the notes) (IPSAS 1.117)
- **Cash flow statement**
  - Regulations are contained in IPSAS 2
- **Notes**
  - Systematic structure and cross-references are required (IPSAS 1.128). For example, following structure:
    - A statement on compliance with IPSAS (IPSAS 1.129 a))
    - Significant accounting policies (IPSAS 1.129 b))
    - Additional information demanded by other IPSAS (IPSAS 1.127 b))
    - Disclosures on judgements (IPSAS 1.138), estimation differences (IPSAS 1.140), capital management (IPSAS 1.148A), puttable equity instruments (IPSAS 1.148D), dividend proposals or resolutions and on the entity (IPSAS 1.149, 150).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 1 applies to all general purpose financial statements prepared and presented under the accrual basis of accounting in line with IPSASs. The standard applies to all individual and consolidated financial statements. (IPSAS 1.2, 1.4)	---
Presentation		

Accounting principles (Qualitative criteria)	Qualitative requirements:
	• Reliability
	  ○ Credible presentation
	  ○ Economic view
	  ○ Neutrality
	  ○ Caution
	  ○ Completeness
	• Comparability
	• Consistency of presentation
	• Faithful representation
	• Presentation of material information and combination in items
	• No netting
	• Understandability
	• Relevance
	Constraining criteria:
	• Timeliness
	• Assessing cost / benefit
	• Balance between qualitative characteristics
	(Cf. IPSAS 1 Appendix and IPSASB Conceptual Framework 2.1 – .31)
		Qualitative requirements:
		• Reliability
		• Non-arbitrary (neutrality)
		• Prudence principle
		• Completeness
		• Comparability
		• Balance sheet continuity
		• Continuity of financial statements
		• Accuracy
		• Clarity
		• Clarity of presentation
		• Cost-effectiveness
		• Realisation principle
		• Imparity principle
		• Accrual basis
		(Cf. HGB Section 252 in conj. with HGB Section 240 and Section 256)

Statement of assets and liabilities	Presentation in line with current and non-current assets and liabilities (on basis of remaining durations). (IPSAS 1.70 ff.) Minimum presentation in line with IPSAS 1.88; further classifications possible in the statement of financial position or the notes. (IPSAS 1.93 ff.)	Classification in non-current and current assets on the basis of the original investment intention, cost, provisions and liabilities (Section 265 HGB f.)
Statement of financial performance	Minimum presentation in line with IPSAS 1.102; further classifications possible in the statement of financial position or the notes. (IPSAS 1.106 ff.)	Classification in line with Section 275 HGB.

	IPSAS	HGB
Statement of changes in net assets / equity	Separate statement as part of financial statements (IPSAS 1.118)	Special consideration as part of financial statements (Section 297 (1) sentence 1 HGB)
Disclosures in the notes		
General	The specific disclosures in the notes are stated in the individual IPSASs; in general, requirement that information is to be disclosed which is not included in the other parts of the financial statements, but which is relevant to an understanding of them. (IPSAS 1.127)	Disclosures in the notes in line with Sections 284 ff. HGB.
Accounting policies used	Explanation of the elements and the accounting policies used (1.127 (a) in conj with 1.132, 1.137)	Explanation of the elements and the accounting policies used (Section 284 (1) HGB)
Key sources of estimate uncertainty	Disclosures on key sources of estimate uncertainty and assumptions. (IPSAS 1.140 ff.).	--
Information on capital management	Information with the objective of enabling users of financial statements to evaluate the entity's objectives, policies, and processes for managing capital (IPSAS 1.148A ff.)	--
Puttable financial instruments classified as net assets / equity	Quantitative and qualitative information on puttable financial instruments classified as net assets / equity. (IPSAS 1.148D)	--

1.2.2 Notable practical insights from implementation

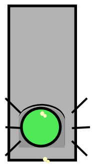
The following insights resulted from implementing the standard:

Presentation of statements of financial position and profit or loss	In national accounting in line with commercial law there is no classification of assets and liabilities into current and non-current portions (or only partially for mirrored presentations in the notes). As a result, the special presentation of the statement of financial position required for IPSAS, classified into maturity periods, required extensive reclassification work. Particularly for new controlled entities in IPSAS (cf. comments on IPSAS 35 in Chapter D.3), information was available only on a very rudimentary basis. For regular reporting in line with IPSAS, it would be sensible to adjust the chart of accounts for the accounting recognition of current and non-current items and a corresponding enquiry of the terms at the affiliates for efficient preparation of the consolidated financial statements. Due to the only rudimentary requirements in IPSAS 1 in relation to the items in the statements of financial position and profit or loss, in many places it was possible to retain the classification of the HGB consolidated financial statements.

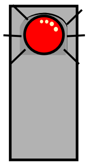
1.2.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 1 ensures fit-for-purpose accounting (in part.)

Classification of statement of financial position in line with maturities	• The separate presentation of current and non-current assets required by IPSAS 1 places a focus on maturity and thus the liquidity of assets. This results in a closeness to the budgetary, often payment-oriented view of the public sector. For users of the financial statements this method of presentation also seems understandable, so that fitness for purpose can be determined.	
Classification requirements of statements of financial position and profit or loss	• IPSAS 1 allows the reporting entity to map the items of the financial position and profit or loss relevant for the entity taking into consideration only rudimentary classification requirements. This allows the flexibility required to highlight the individual focus areas and special features of the respective entity, thus producing the highest level of transparency.	

IPSAS 1 does not ensure fit-for-purpose accounting (in part.)

Presentation of statements of financial position and profit or loss	• In general, the fact that the standard does not stipulate any comprehensive uniform classification schedule for statements of financial position and profit or loss adversely impacts the targeted comparability of the financial statements of different entities due to the resultant scope for design.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition	Measurement
	-	-	-
Transparency, (appropriate) informational content for users and understandability			
Data quality			
Comparability			
Summary			
Conclusion			
Comments / Information			

Presentation			Disclosures in the notes
Statement of financial position - Presentation of current and non-current assets and liabilities	**Statement of financial position - Minimum line items requirement**	**Statement of profit or loss - Minimum line items requirement**	
Yes	Yes	Yes	Yes
• Presentation on the basis of maturities (additional information) • Closeness to the budgetary view of the public sector • Presentation in line with maturities understandable for users	• Minimum line items can be supplemented with significant and relevant items • Immaterial and irrelevant items need not be highlighted	• Minimum line items can be supplemented with significant and relevant items • Immaterial and irrelevant items need not be highlighted	• Additional disclosures in the notes result in an informational gain
Yes	n/a	n/a	Yes
			• Focus on qualitative explanations
Yes	No	No	Yes
• Comparability secured with clear regulations	• Discretion in respect to presenting the statement of financial position adversely impacts comparability	• Scope of design in respect to presenting the statement of profit or loss adversely impacts comparability	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
• As fit for purpose accounting should ensure comparability of financial reporting within the EU, the structure of the statement of financial position and the statement of profit or loss should enable comparability.			

1.3 IPSAS 2: Cash Flow Statements

1.3.1 Theoretical background

Scope

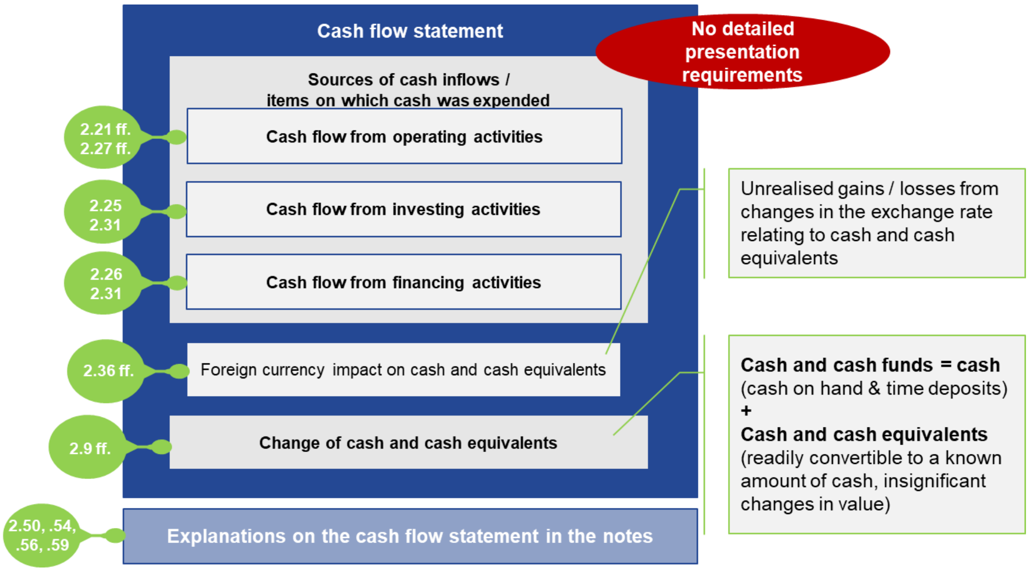
IPSAS 2 is to be applied to all public-sector entities which prepare their financial statements under the accrual basis of accounting (IPSAS 2.1).

The standard deals with the preparation and the presentation of cash flow statements. The cash flow statement is an integral part of IPSAS financial statements and shows the development of cash and cash equivalents within the reporting period. It supplements the financial statements with liquidity-related information, thus making it evident for users of the financial statements how cash and cash equivalents are generated and consumed (IPSAS 2.2).

The cash flow statement also provides support in decision-making. Thus, on the basis of the cash flow statement subsequent cash receipts and cash payments can be forecast and consideration taken in determining future cash requirements (IPSAS 2.7).

Presentation

The cash flow statement is divided into cash flows during the period classified as operating, investing, and financing activities (IPSAS 2.18). The following diagram contains the relevant overview.



(i) Cash and cash equivalents

In line with IPSAS 2.8 and IPSAS 2.10, cash and cash equivalents comprise cash (cash on hand and demand deposits) and cash equivalents (short-term highly liquid financial investments and overdrafts). Cash equivalents are only those financial instruments which are readily convertible into cash and are not subject to any significant changes in value (IPSAS 2.9). In addition, only inflows and outflows of cash and cash equivalents are designated as cash flows (IPSAS 2.11). Changes within cash and cash equivalents are not part of the cash flow statement, as they are simply transformations. Movements which do not result in any change in the cash and cash equivalents are also not to be recognised in the cash flow statement. However, they are to be disclosed in the notes (IPSAS 2.54).

(ii) Cash flow from operating activities

In line with IPSAS 2.8, cash flow from operating activities comprises solely activities which are not investing or financial activities. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity (IPSAS 2.22). Examples include:

- Cash receipts from taxes, levies, fees and fines
- Cash receipts from charges for goods and services
- Cash receipts from grants or transfers and other appropriations
- Cash payments to and on behalf of employees
- Cash receipts and payments from trading contracts
- Cash receipts or payments from discontinuing operations
- Cash receipts or payments in relation to litigation settlements
- Cash receipts or payments in connection with securities and bonds held for trading

In line with IPSAS 2.27, cash flow from operating activities can be determined using the direct and indirect method. With the direct method, each transaction is checked for its impact on cash. All cash receipts are held against the cash payments. The balance of receipts and payments is cash flows from operating activities. If cash flow is determined on an indirect basis, the surplus or deficit in the statement of financial performance is adjusted for transactions not impacting liquidity and transactions relating to investing or financing cash flow (IPSAS 2.30).

(iii) Cash flow from investing activities

Cash flow from investing activities presents the use of cash and cash equivalents for investments and payment received from the sale of assets. Only cash outflows that result in a recognised asset in the statement of financial position or payments which result in the asset disposal are eligible for classification as investing activities (IPSAS 2.25). Examples include the following transactions:

- Cash payments to acquire property, plant, and equipment, intangibles, and other long-term assets. These payments include those relating to self-constructed property, plant, and equipment and capitalised development costs
- Cash receipts from sales of property, plant, and equipment, intangibles, and other long-term assets other than those considered to be cash equivalents or those held for trading purposes
- Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures
- Cash advances and loans made to other parties, other than advances and loans made by a public financial institution
- Cash receipts and payments for standardised and other forward contracts, option and swap contracts, except when the contracts are held for trading purposes, or the payments are classified as financing activities

Cash flow from investing activities is prepared using the direct method. Reporting takes place on a gross basis. Thus, cash receipts and gross cash payments are clustered and reported as separate classes. Offsetting is allowed only under certain circumstances (IPSAS 2.31).

(iv) Cash flow from financing activities

In cash flow from financing activities all activities are to be presented that result in changes in the size and composition of the contributed capital and borrowings of the entity (IPSAS 2.8). It thus impacts all activities that impact the composition and size of net assets and the borrowings of the entity. The transactions relate solely to external financing and in line with IPSAS 2.26 comprise the following transactions:

- Taking up net assets (equity) or borrowings
- Proceeds from the sale of loans
- Cash proceeds and payments from issuing and repaying loans
- Cash proceeds for issuing debentures
- Cash repayments of amounts borrowed

Cash flow from financing activities is prepared using the direct method. Reporting also takes place on a gross basis (IPSAS 2.31).

Taking account of the foreign currency differences, the total of the cash flows from the three activities represent the change in cash and cash equivalents in the reporting period. Changes in foreign currency which relate to cash and cash equivalents are not recognised directly in the cash flow statement. However, they are reported and presented in a separate line so that cash and cash equivalents can be compared at the beginning and end of the period (IPSAS 2.39).

The standard does not include any further requirements for the classification of cash flow. This is left to the judgement of the public entity.

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
	As an integral part of IPSAS financial statements, the cash flow statement shows the development of liquid funds within the reporting period. (IPSAS 2.1-.2)	Part of the individual financial statements, the sub-group financial statements and the consolidated financial statements (Administrative provisions on Sections 70 to 80 State Budget Regulations)
Presentation		
	Only requirement for classification in cash flows from operating, investing and financing activities (IPSAS 2.18)	Stricter classification regulations, sub-classification to cash flows from operating, investing and financing activities (DRS 21 Notes 39/40, 46 and 50)
	Choice between direct and indirect determination of cash flow from operating activities (IPSAS 2.27)	Choice between direct and indirect determination of cash flow from operating activities (DRS 21 Note 38)
	Option to recognise interest and dividends in CF from operating, investing or financing activities; option is to be applied consistently. (IPSAS 2.40)	In CF interest and dividends received are attributed to investing activities; in CF paid interest and dividends are attributed to financing activities. (DRS 21 Notes 44 and 48)

	IPSAS	HGB
	Separate recognition of income taxes from operating activities in CF; if clear attribution possible, also recognition in CF from investing or financing activities possible. (IPSAS 2.44)	In CF, separate recognition of income taxes from operating activities; with clear attribution, in CF also recognition in investing or financing activities possible. (DRS 21 Notes 18 f)
	No prohibition for extraordinary items (IPSAS 1. BC10)	Minimum classification states recognition of extraordinary items (DRS 21 Notes 39-40)
Disclosures in the notes		
	Disclosures on purchase and disposal of controlled entities and other operating units. (IPSAS 2.50)	--
	--	Disaggregation to be presented when material cash flows can be allocated to several cash flows (DRS 21.17)
	--	If a profit measure which is not profit or loss for the period is used for the indirect method, this is to be presented and reconciled if necessary. (DRS 21.41)
	Disclosures on the components of cash and cash equivalents including reconciliation with the equivalent items in the statement of financial position. (IPSAS 2.56)	Disclosures on the definition and composition of cash funds; if necessary reconciliation to the "Cash / bank balances" position (DRS Notes 21, 52 a and b)
	Disclosures on material investing and financing transactions that do not require the use of cash or cash equivalents. (IPSAS 2.54)	Disclosures on material investing and financing transactions that do not require the use of cash or cash equivalents. (DRS 21 Note 52 c)
	--	Disclosure of components of cash funds attributable to proportionately consolidated entities. (DRS 21 Note 52 d)
	Disclosures on cash and cash equivalents that are not available for use. (IPSAS 2.59)	Disclosure of cash fund elements subject to a restriction on disposal. (DRS 21 Note 52 e)
	Optional: Disclosure of undrawn borrowing facilities indicating any restrictions in use of these facilities. (IPSAS 2.61)	--

1.3.2 Notable practical insights from implementation

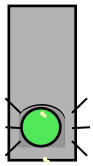
The following insights resulted from implementing the standard:

Recognition (structure of the cash flow statement)	Overall, it was largely possible to retain the structure of the cash flow statement in comparison to the cash flow statement in line with national requirements. Adjustments were required particularly as a result of the consolidation of additional entities in the scope of full consolidation (cf. comments on IPSAS 35 in Chapter D.3) and as a result of effects of adjustment entries when transitioning accounting from HGB to IPSAS to cash flow from operating activities determined using the indirect method.
Determining cash flow from operating activities	IPSAS 2 allows the user to choose between using the direct or indirect method for determining cash flow from operating activities (Cash Flow I). For the IPSAS consolidated financial statements, the state of Hesse has elected to apply the indirect method, similar to the calculation methodology for HGB consolidated financial statements.

1.3.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 2 <u>ensures</u> fit-for-purpose accounting (in part.)

Overall	• IPSAS 2 allows a presentation of the development of liquid funds within the reporting period in line with the items and appropriate for the users of the financial statements. The necessary disclosures in the notes contribute to transparency and understandability.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition -
Transparency, (appropriate) informational content for users and understandability		
Data quality		
Comparability		
Summary	IPSAS offers fit-for-purpose accounting	
Conclusion		
Comments / Information		

Measurement	Structure (Presentation)	Disclosures in the notes
-	With interpretations of regulations close to HBG, largely no structural differences	Extended disclosures in the notes
		Yes
		• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
		n/a
		• No additional determination of information required for the disclosures in the notes
		Yes
		• Comparability secured with clear regulations
	IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**
	• Direct determination of Cash Flow I more recommended for public-sector budgets (comparable cash accounting).	

1.4 IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors

1.4.1 Theoretical background

Scope

IPSAS 3 is to be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of previous periods (IPSAS 3.3). By specifying requirements in these areas, the aim is to improve the relevance and faithful representativeness of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities (IPSAS 3.1).

Measurement

Selection and application of uniform accounting policies

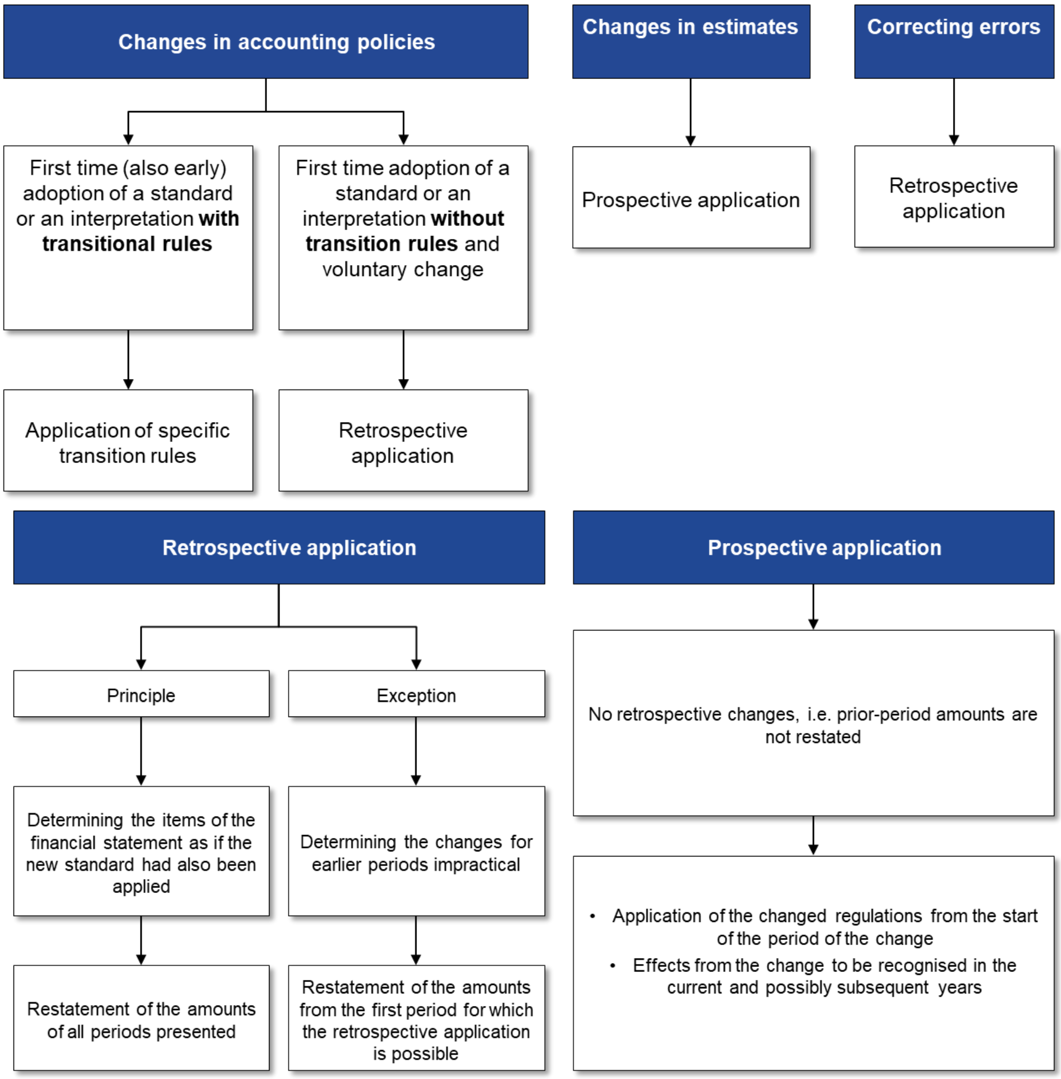
In the selection and application of accounting policies primary requirements of relevant standards and corresponding guidance are to be observed (IPSAS 3.9 ff.). In the absence of specific requirements, management of the public-sector entity should use its judgement in developing and applying the relevant accounting policies (IPSAS 3.12). Requirements of other IPSAS and current requirements of other standard-setting bodies should offer additional assistance (IPSAS 3.14 f.).

"Accounting policies are the specific principles, conventions, rules and practices applied by an entity in preparing and presenting financial statements."

Principle	Development of a method when there is no standard
• Decisive are the **IASB standard and interpretations** • Accounting policies are to be applied in a consistent manner over time	**Development of a suitable method using the following sources:** Primarily: Requirements and guidance in other **standards dealing with similar and related issues** → Otherwise: Definitions, recognition criteria, and measurement concepts from the **Conceptional Framework** In addition: current **pronouncements of other standard-setting bodies**, **specialist literature and accepted industry practices** (to the extent they do not conflict with named source)

Application of changes

The following two charts provide an overview of the methods to be applied in connection with changes in accounting methods and estimates as well as correcting errors.



<u>Change in accounting policies</u>

In the selection and application of uniform policies, the principle of consistency is to be applied (IPSAS 3.16).

According to IPSAS 3.17, an entity may change an accounting method only if the change

— is required by an IPSAS or

— results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance or cash flows.

Despite an accounting method change, users of financial statements must be able to compare the financial statements of an entity over time to identify trends in its financial position, performance, and cash flows (IPSAS 3.18).

Changes in estimates

It may not be possible to measure services, trading activities, or assets and liabilities with precision. As a result, estimates must be made when preparing financial statements and applying the individual standards.

Changes of estimates are to be recognised on a prospective basis (by including it in surplus and deficit) in the period affected by the change; in addition to the reporting period this can also be future periods (IPSAS 3.37 ff., IPSAS 3.41).

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it is recognised by adjusting the carrying amount of the related asset, liability, or net assets/equity item in the period of change (i.e. in the context of the preparation of the current financial statements) (IPSAS 3.42).

Errors from earlier periods

In line with IPSAS 3.47, when preparing financial statements for public sector entities, (material) previous period errors are to be corrected retrospectively in the first set of financial statements authorised for issue after their discovery by

— restating the comparative amounts for previous period(s) presented in which the error occurred or

— if the error occurred before the earliest previous period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest previous period presented.

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 3 is to be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of previous periods. (IPSAS 3.3)	---
Measurement		
Change in accounting policies	An adjustment of accounting methods is to take place retrospectively. Exceptions: - different specifications of the relevant IPSAS in the initial application of this standard, - Impracticability. (IPSAS 3.24 in conj. with 3.27-3.28)	An adjustment of accounting methods is to take place in current financial statements and is to be explained in the notes. (Section 284 (2) 2 HGB). For consolidated financial statements retrospective application (DRS 13.9) and breakdown into changes relevant to previous years (recognition in IS the “Effect of a change in the accounting policies applied” item in line with DRS 13.11) and those which relate to the current financial year (recognised in IS in line with DRS 13.10).
Estimates	Changes of estimates are to be recognised prospectively. (IPSAS 3.41)	For consolidated financial statements in line with DRS 13, recognition in profit and loss in the period in which the application occurred. (DRS 13.20)

	IPSAS	HGB
Error correction	Material errors for previous periods are to be recognised retrospectively in current accounting. Expedient: Impracticability (IPSAS 3.47-3.48)	In line with DRS 13.25, material errors are corrected in the current consolidated financial statements. DRS 13.26 demands the correction of earlier consolidated financial statements if the error adversely affects the presentation of the net asset and results of operations.
Disclosures in the notes		
Change in accounting policies	Disclosures on the effect of the initial application of an IPSAS. (IPSAS 3.33) Disclosures on the effects of voluntary changes in accounting policy, including information on and reasons for the deviations and presentation on the financial position, performance and cash flows as well as (as far as is practical) for each previous period. If retrospective application is wholly or partly impracticable, this is to be explained. (IPSAS 2.34) Disclosure if a new standard is not applied which has been issued but is not yet effective. (IPSAS 2.35)	Pro-forma disclosures for the main items of the previous year. (DRS 13.14)
Assessment	Disclosures on the nature and amount of a change in accounting estimate. (IPSAS 3.44) If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity is to disclose that fact. (IPSAS 3.45)	Additional disclosures in the notes in line with DRS 13.30 e: The nature and amount of a change in accounting estimates that has a material effect on the financial position and performance of the group in the current period is to be disclosed. Disclosure is also required where a change may have an effect on subsequent periods.
Error correction	Additional disclosures in the notes on the following items: • Nature of error • The amount of correction (start and end amounts), if possible for each earlier period • If retrospective application is wholly or partly impracticable, explanation. (IPSAS 3.54)	Additional disclosures in the notes in line with DRS 13.32: When errors are corrected which adversely affect the presentation of the net asset and results of operations, the following disclosures or necessary: a) nature of the error, b) the amount of the correction for each previous period requiring correction and the cumulative amount. The amount of the correction is to be explained in such a way that it can be evaluated reliably.

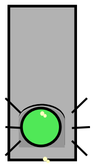
1.4.2 Notable practical insights from implementation

In the context of the initial preparation of IPSAS financial statements, no IPSAS 3 application cases were identified. For this reason, no practical insights are cited here.

1.4.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 3 ensures fit-for-purpose accounting (in part.)

Adjustments in accounting policies and error correction	• Due to the fact that adjustments relating to the previous year (either due to changes in accounting policy or error corrections) are recognised exclusively in equity, there is an appropriate and clear presentation of the statement of financial performance in the current year. • In addition, the mandatory adjustment of the comparative figures in the financial statements considerably increases the decision-making usefulness of the information, as it increases inter-period comparability.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope -	Recognition -	Measurement Retrospective adjustment in accounting policies
Transparency, (appropriate) informational content for users and understandability			Yes
			• Changes of previous years relate only to equity • No recognition in the current year statement of profit or loss • Mandatory adjustment of the comparative figures in the financial statements • Transparency when making a previous-year/ time series comparison
Data quality			n/a
Comparability			Yes
			• Cf. Transparency + (appropriate) informational content for users and understandability
Summary			IPSAS offers fit-for-purpose accounting
Conclusion			
Comments / Information			

Measurement	Presentation	Disclosures in the notes
Retrospective correction of significant errors	**-**	**Extended disclosures in the notes**
Yes		Yes
• Changes of previous years relate only to equity • No recognition in the current year statement of profit or loss • Mandatory adjustment of the comparative figures in the financial statements • Transparency when making a previous-year/time series comparison		• Additional disclosures in the notes result in an informational gain
n/a		n/a
Yes		Yes
• Cf. Transparency + (appropriate) informational content for users and understandability		• Cf. Transparency + (appropriate) informational content for users and understandability
IPSAS offers fit-for-purpose accounting		**IPSAS offers fit-for-purpose accounting**

1.5 IPSAS 4: The Effects of Changes in Foreign Exchange Rates

1.5.1 Theoretical background

Scope

According to IPSAS 4.3, the standard is to be applied when recognising transactions and balances in foreign currencies translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation or by the equity method and in translating an entity's financial performance and financial position into a presentation currency. Foreign currency transactions are defined as transactions arising when goods or services are bought or sold, funds are borrowed or lent or otherwise assets are acquired or disposed of or liabilities are incurred or settled which are denominated in a foreign currency (IPSAS 4.23).

Recognition and measurement

The following diagram summarises the requirements of IPSAS 4 on the initial recognition of foreign currency transactions and reporting in subsequent periods (cf. IPSAS 4.23 ff.).

Measurement at recognition

Initial recognition in the functional currency by applying to the foreign currency amount **the spot exchange rate at the date of the transaction** between the functional currency and the foreign currency.

Use of the **average rate** for a week or a month possible for practical reasons (except strongly fluctuating exchange rates).

Translation of a foreign currency transaction into the functional currency* as at the reporting date

	Monetary items	Non-monetary items at historical cost	Non-monetary items at fair value
Exchange rate (4.27)	Closing rate	Exchange rate on the date of the transaction, simplified average exchange rate	Exchange rate on the date of remeasurement
Reporting differences (4.37)	Surplus or deficit of the reporting period		In line with recognition of remeasurement

*The functional currency is the currency of the primary economic environment in which the entity operates.

Presentation

In line with IPSAS 4.32, monetary items are to be recognised in surplus or deficit. Non-monetary items can be recognised in surplus or deficit or in net assets/equity (IPSAS 4.35).

Disclosures in the notes

In line with IPSAS 4.61, disclosure of the amount of exchange differences recognised in surplus and deficit and net exchange differences classified as a separate component of net assets/equity is required.

	IPSAS	HGB
Scope		
	The requirements of IPSAS 4 are to be used when recognising transactions and balances in foreign currencies, in translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation or by the equity method and in translating an entity's financial performance and financial position into a presentation currency. (IPSAS 4.3)	Section 256a HGB and Section 308a are to be applied for currency translation and translation of foreign currency financial statements for inclusion in the consolidated financial statements.
Recognition		
Accounting for currency transactions	• Spot exchange rate (IPSAS 4.24) • Facilitation: Average rate (IPSAS 4.25)	• Middle spot rate (Section 256a HGB)
Measurement		
Subsequent measurement	Monetary items: Closing rate on reporting date Non-monetary items: Exchange rate at the date of transaction for items measured in terms of historical cost in a foreign currency or for items measured at fair value exchange rates at the date when the fair value was determined. (IPSAS 4.27)	**Accounting for currency transactions:** • Middle spot rate on the reporting date • For items with a remaining term of less than one year, there is no further application of the cost principle (Section 253 (1) sentence 1 HGB) or the imparity and realisation principle (Section 252 (1) No. 4 half sentence 2 HGB) for translation purposes. (Section 256a HGB) **Translation of foreign currency financial statements:** • Middle spot rate for asset and liability items • Historical exchange rate for equity • Average exchange rate for IS items (Section 308a HGB)

	IPSAS	HGB
Presentation		
	• Monetary items: Recognition of exchange differences in surplus or deficit (IPSAS 4.32) • Non-monetary items: When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit and when a gain or loss on a non-monetary item is recognised directly in net assets/equity, any exchange component of that gain or loss is recognised directly in net assets/equity. (IPSAS 4.35)	**Accounting for currency transactions:** • Recognition of exchange rate differences as expense or income (Section 277 (5) HGB) **Translation of foreign currency financial statements:** • Recognition of translation differences within consolidated equity under the "Currency translation differences" item. (Section 308a sentence 3 HGB)
Disclosures in the notes		
	• Disclosure of the amount of exchange differences recognised in surplus or deficit • Disclosure of net exchange differences classified in a separate component of net assets/equity and a reconciliation of the amount of such exchange differences at the beginning and end of the period. (IPSAS 4.61)	The translation of currency transactions at a level which is not immaterial is to be explained as part of the accounting policies used within the meaning of Section 284 (2) No. 1. (DRS 25,106)

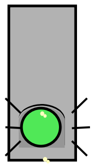
1.5.2 Notable practical insights from implementation

In the framework of the project, translation of exchange rates was only of subordinate importance. For this reason, no notable practical insights.

1.5.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 4 <u>ensures</u> fit-for-purpose accounting (in part.)



Initial measurement of monetary and non-monetary items	• Foreign currency transactions are translated at the exchange rate at the date of the transaction. This method results in a faithful representation of the actual circumstances. The exchange rates are specified externally, ensuing an objectifiable presentation.
Subsequent measurement of monetary and non-monetary items	• Monetary items are subsequently translated at the respective reporting date, while non-monetary items are to be translated at the transaction rate. Especially as a result of exchange rates which can be determined on an objective basis, this allows unequivocal and clear recognition of assets.
Presentation of translation differences for non-monetary items	• The recognition of translation differences in connection with non-monetary items is consistent with accounting for value changes which do not result from foreign exchange translation. This means that to the extent that other value changes are reflected in surplus or deficit, any foreign currency differences are also recognised in surplus or deficit. If changes of a non-monetary item are recognised directly in equity (e.g. in the context of remeasurement), any related foreign currency differences are also to be recognised directly in equity. This method promotes a consistent and clear presentation in the financial statements.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	**Scope** **-**	**Recognition** **Measurement on addition at spot rate: (Expedient: middle rate)**
Transparency, (appropriate) informational content for users and understandability		Yes
		• Faithful representation of the actual circumstances
Data quality		Yes
		• Exchange rates are specified externally, ensuring an objectifiable presentation
Comparability		Yes
		• Comparability secured with clear regulations
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		
Comments / Information	• IPSAS 4 In the state of Hessen only of subordinate importance	

Measurement **Subsequent measurement of non-monetary items at spot rate (Expedient: middle rate); Subsequent measurement of non-monetary items at transaction rate (Expedient: middle rate)**	**Presentation** **Presentation of non-monetary items similar to the method in the respective standard (Equity or statement of financial performance)**	**Disclosures in the notes** **Extended disclosures in the notes**
Yes	Yes	Yes
• Faithful representation of the actual circumstances	• Recognition of translation differences consistent with accounting for value changes which do not result from foreign exchange translation • Method promotes a consistent and clear presentation	• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
Yes	n/a	Yes
• Exchange rates are specified externally, ensuring an objectifiable presentation		• Additional determination of information required for the disclosures in the notes (e.g. spot rates) - however, these are objectifiable
Yes	Yes	Yes
• Comparability secured with clear regulations	• Comparability secured with clear regulations	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
• Due to expedient option to use average prices, the state of Hessen would have no adjustment or transitional requirements.		

1.6 IPSAS 20: Related Party Disclosures

1.6.1 Theoretical background

Scope

IPSAS 20 contains regulations on disclosing information about related party relationships and certain transactions with related entities and persons and is to be applied by all public sector entities which prepare their financial statements under the accrual basis of accounting (IPSAS 20.1). This information serves the purposes of meeting the obligation of accountability for a public sector entity and provides a better understanding of the financial position and performance of the reporting entity.

Disclosures in the notes

The following diagrams summarise the terms defined by IPSAS 20 and the requirements related to the specified disclosures in the notes.

Related parties (IPSAS 20.4)

a) Directly or indirectly controlled entities
b) Associates
c) Natural persons which hold a share and thus are material (plus family members)
d) Key management personnel
e) If there is the possibility of material influence on persons in line with c) or d)

Controlled entities (IPSAS 20.25)

- When control exists, disclosure is required, irrespective of whether there have been transactions

Key management personnel (IPSAS 20.6f.)

- President
- Ministers
- Key management personnel (heads of department)
- Key advisors (office managers of ministers or executive assistants)

Close members of the family of a key person (IPSAS 20.5)

- Spouse / domestic partner
- Children
- Grandparents
- Parents
- Grandchildren
- Brothers or sisters
- Parents-in-law
- Brothers-in-law / sisters-in-law

Disclosures on control (IPSAS 20.25-.26)

All relationships where control exists shall be disclosed (irrespective of whether there have been transactions):

Angaben zur Beherrschung (IPSAS 20.25-.26)

Alle Beziehungen, bei denen ein Beherrschungsverhältnis vorliegt, sind offenzulegen (unabhängig davon, ob Transaktionen stattgefunden haben):
- Name
- Name der kontrollierenden Einheit
- Name der ultimativ kontrollierenden Einheit, falls vorhanden.

Angaben von Transaktionen mit nahe stehenden Einheiten und Personen (IPSAS 20.27-.33)

Über die normalen Geschäftsverhältnisse hinausgehende Transaktionen sowie deren Konditionen sind offenzulegen:
- Art des Beziehungsverhältnisses
- Art der Transaktion
- Entscheidungsnützliche Informationen über die Bestandteile der Transaktionen

Angaben zu Schlüsselpersonen des Managements (IPSAS 20.34-.41)

- Anzahl und Gesamtvergütung aller Schlüsselpersonen; an nahe Familienangehörige geleistete Zahlungen
- Abgrenzung und Definition von Hauptklassen der Schlüsselpersonen des Managements (z.B. anhand der Gehaltsstufe, Verantwortungsniveau)
- Kreditbeträgen und vertraglichen Bedingungen, Saldos, sowie Details zur Schlüsselperson/der nahen Angehörigen

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 20 contains requirements for disclosing information about related party relationships and certain transactions with related parties and is to be applied by all public sector entities which prepare their financial statements under the accrual basis of accounting. (IPSAS 20.1)	The relevant terms are not defined in HGB. On the basis of the standardised approximation to the IFRS on the basis of BilMoG (2009), the corresponding IAS 24 is to be used for interpretation. Disclosures in the notes are defined in Section 285 no. 9, No. 11 No. 21 HGB and Section 314 (1 and) No. 13 HGB.
Definition: **Related parties**	In line with IPSAS 20.4, related parties are: • Individuals owning, directly or indirectly, an interest in the reporting entity and close members of the family of any such individual, • Key management personnel.	In line with IAS 24.9, related parties are: • Persons or close members of the family of any such individual who control or joint control in the reporting entity, or exercise significant influence, • Key management personnel.
Definition: **Key management personnel**	• All directors or members of the governing body of the entity. • Other persons (e.g. important advisory, department heads, office managers of ministers) if they, each assessed individually, have the authority and responsibility for planning, directing and controlling the activities of the reporting entity. (IPSAS 20.4)	• Persons directly or indirectly responsible for the planning, directing and controlling of the activities of the entity (including management and supervisory bodies). (IAS 24.9)
Definition of close members of the family of an individual	• Spouse, domestic partner • Dependent child, non-dependent child • Relative living in a common household • Grandparents, parents, grandchildren, brothers or sisters • Spouses / domestic partners of a child, parents-in-law, brothers-in-law, sisters-in-law (IPSAS 20.5)	• Spouses / domestic partners • Children, children of the spouse / domestic partner • Economically dependent family members of related parties and their spouses / domestic partners (IAS 24.9)
Definition of related entities	• Entities with direct or indirect control • Associates (interest of at least 20%) • Entities with significant interest of a key person or close members of the family of any such individual (IPSAS 20.4)	• Entities of the same group • Associates or joint ventures • Entities with significant interest of a key person or close members of the family of any such individual (IAS 24.9)
Composition of the disclosures in the notes	• Information on control • Transactions with related parties • Key management personnel	• Information on equity holdings • Transactions with related parties • Management remuneration

	IPSAS	HGB
Contents of the disclosures in the notes: **a) Information on control**	• Name of the controlling and controlled entity • Independently of the business relationship (IPSAS 20.25-.26)	• Name and domicile of the entity • Percentage of equity interest • Result of the last financial year • Independently of the business relationship (Section 285 (11) HGB)
b) Transactions with related parties	• Disclosure of non-normal market transactions: • Nature of relationship • Nature of transaction • Summary of the general terms and conditions of the above transactions • Amounts or appropriate proportions of outstanding items (IPSAS 20.27, 20.30)	• Disclosure of non-normal market transactions • Nature of relationship • Value of the transactions • Other disclosures necessary for an assessment of the financial position. (Section 285 No. 21, Section 314 (1) No. 13 HGB)
c) Remuneration of key management personnel	• Remuneration of key management personnel (IPSAS 20.16) • Other remuneration to management personnel and remuneration to family members • Loans to key management personnel / family members (IPSAS 20.34)	• Management remuneration • Total remuneration of previous management • Loans and advances granted • And commitments assumed (Section 285 (9) HGB)

1.6.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

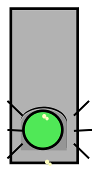
General	When preparing the necessary disclosures on related party disclosures, in relation to disclosure, also of sensitive information, it became evident that the standard – particularly in reference to the definitions made - has high political relevance. By using the existing judgements, it was possible to assume - by and large - the definitions coordinated for reporting under commercial law, and thus the disclosures already published there.

1.6.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 20 ensures fit-for-purpose accounting (in part.)

“Transactions with Related Parties” disclosures in the notes	• The extensive disclosures in the notes provide (background) information on transactions of key management personnel made with related parties. The reader of the financial statements obtains a sufficient overview of the relevant transactions.
“Remuneration of key management personnel” disclosures in the notes	• Disclosures on relevant remuneration provides an overview on normal and non-normal transactions with key management personnel. Thus, the financial statements allow a clear and unequivocal view on possible influence on the financial position and results.



b. Detailed assessment

	Scope	Recognition	Measurement
Contributing factors for an assessment of fit-for-purpose accounting	-	-	-
Transparency, (appropriate) informational content for users and understandability			
Data quality			
Comparability			
Summary			
Conclusion			
Comments / Information			

Presentation	Disclosures in the notes	
-	**Disclosures in the notes Transactions with related parties**	**Disclosures in the notes Remuneration of key management personnel**
	Yes	Yes
	• Additional background information on the respective transactions of key management personnel are disclosed	• Disclosures on normal and non-normal transactions provide a clear and unequivocal view on possible influence on the financial position and results
	n/a	n/a
	• Determining relevant information from accounting; no additional assessment / determination of information required for the disclosures in the notes	• Determining relevant information from accounting; no additional assessment / determination of information required for the disclosures in the notes
	Yes	Yes
	• Comparability secured with clear regulations	• Comparability secured with clear regulations
	IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**
	• High political relevance, especially with disclosure of sensitive information • Questionable relevance of the information within the meaning of the public-sector control function, as in the budget preparation methods the expenses are known and legitimated in advance	

1.7 IPSAS 34: Separate Financial Statements

1.7.1 Theoretical background

Scope

IPSAS 34 prescribes the accounting of investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The separate financial statements can be prepared as a result of obligations resulting from regulations or on a voluntary basis (IPSAS 34.2). In line with IPSAS 34.3, the standard applies when an entity prepares separate financial statements in line with IPSAS. However, it does not prescribe which entities must prepare separate financial statements. Rather there is a definition of the reporting entity in the IPSAS Conceptional Framework.

Measurement

Separate financial statements are to be prepared in accordance with all applicable IPSASs (IPSAS 34.11). An exception to this are the regulations on accounting of interests in controlled entities, joint ventures and associates. These are to be recognised at cost in line with IPSAS 41 or using the equity method in line with IPSAS 36 (IPSAS 34.12).

In addition, there are the following explicit requirements on the following items:

— Accounting for investments in associates and joint ventures, which are measured at fair value through surplus or deficit in line with the option in IPSAS 36.24 (particularly relevant for investment entities) (IPSAS 34.13).

— Accounting for investments in investment entities in general (IPSAS 34.14 ff.).

— Recognition of dividends or similar distributions of a controlled entity, joint venture or associate (IPSAS 34.16).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 34 prescribes the accounting of investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. (IPSAS 34.2)	Section 255 HGB contains requirements on the measurement of equity investments
Measurement		
	Investments in the separate financial statements can be measured at cost on the basis of IPSAS 41 or using the equity method. (IPSAS 34.29)	Equity interests are measured at cost in the separate financial statements. (Section 255 (5) sentence 1 HGB)

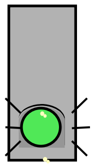
1.7.2 Notable practical insights from implementation

Consolidated financial statements were prepared in the context of the projects; it is not planned to prepare separate financial statements in line with IPSAS 34. There were thus no notable practical insights.

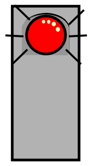
1.7.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 34 <u>ensures</u> fit-for-purpose accounting (in part.)

Option measurement of interests	• The option in respect to interests in the separate financial statements (cost, equity method or fair value) provides the reporting entity with the possibility of finding an objectifiable valuation. In particular, account is taken of the fact that there is no active market for a large number of the public-sector interests by the possibility of accounting at cost or using the equity method. • Combined with the disclosure of the selected recognition method in the notes, the regulation allows for a transparent and verifiable presentation of interests in the separate financial statements.	

IPSAS 34 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Option measurement of interests	• Due to the present option, there can be considerable measurement differences for interests. This considerably limits comparability of the financial statements of various reporting entities. This would then be particularly obvious when an interest in one and the same entity has different measurements as a result of the heterogeneous use of the option in the separate financial statements of the owners.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition No difference
Transparency, (appropriate) informational content for users and understandability		
Data quality		
Comparability		
Summary	IPSAS offers fit-for-purpose accounting	IPSAS offers fit-for-purpose accounting
Conclusion		
Comments / Information		

Measurement Option to measure interests	Presentation No difference	Disclosures in the notes Extended disclosures in the notes especially due to measurement option for interests
Yes		Yes
• Transparency in respect to the option exercised established in connection with the required disclosures in the notes		• Required disclosures in the notes in connection with the measurement option are decisive for an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
Yes		n/a
• Measurement option allows objectifiable value recognition • Possibility of accounting at cost or using the equity method sensible as there is no active market for a large number of the public-sector interests		• No additional determination of information required for the disclosures in the notes
No		Yes
• Option can result in considerable measurement differences (cost, equity, fair value) • Heterogeneous use of the option could result in several reporting entities with a participation in an interest recognising different amounts		• Comparability secured with clear regulation
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
• Possible restriction of the option / mandatory disclosure of cost / equity value / fair value as comparative benchmark		
• Due to preparing consolidated financial statements, no application of IPSAS 34 in the project • Equity value regarded as practical method for the reliable measurement of interests • Fair value difficult to determine due to lack of an active market		

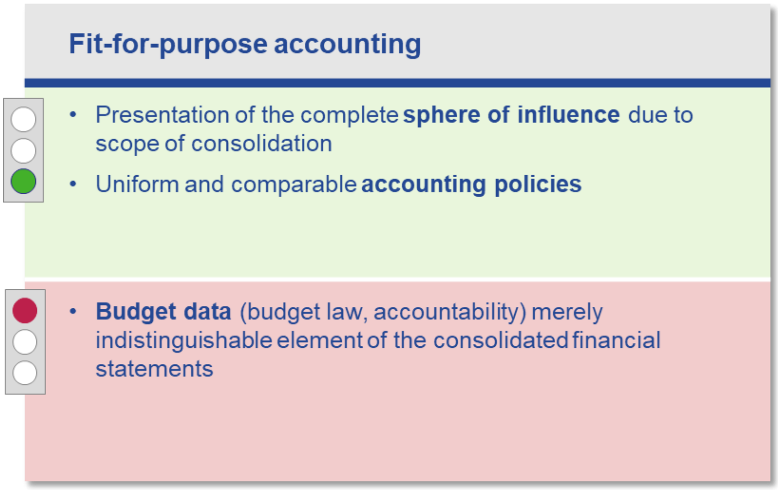
2. Consolidation and interests in other entities

2.1 Summary

This chapter assesses the following IPSAS which are to be applied in consolidation and accounting for interests in other entities:

IPSAS Standard
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 40: Public Sector Combinations

To summarise, it should be noted that the relevant IPSAS for consolidation and accounting for interests in other entities, as listed above, are predominantly assessed as fit for purpose. The key positive and negative factors which result in this assessment are shown in the diagram below.



2.2 IPSAS 35: Consolidated Financial Statements

2.2.1 Theoretical background

Scope

The objective of IPSAS 35 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities (IPSAS 35.1). In line with IPSAS 35.5 – with few exceptions [27] – all controlling entities are to prepare consolidated financial statements. In line with the underlying IFRS 10, the standard defines the criterion of control (IPSAS 35.2).

Recognition and measurement

The standard differentiates between fully consolidated entities, associates and joint ventures.

Fully consolidated entities

As a group the IPSAS framework defines "entities" consisting of two or more separate entities that present their financial statements as if they were one entity. In IPSAS the financial statements of an economic entity are designated consolidated financial statements. An economic entity is a group of entities which consists of a controlling entity (parent entity) and one or more controlled entities (subsidiaries). The terms "economic entity" and "group" are used synonymously (IPSAS 35.16). Controlling entities are fully consolidated. The consolidated financial statements show the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and the controlled entities as those of an one economic entity (IPSAS 35.40).

Investments in associates

In the consolidated financial statements, associates are also reported (IPSAS 36). In contrast to controlled entities in line with IPSAS 35, associates are distinguished by the fact that the controlled entity can exercise (only) significant influence over this entity (IPSAS 35.14 in conj. with IPSAS 36.8). Significant influence requires the power to participate in the financial and operating policy decisions of the entity but not control or joint control of those policies (IPSAS 36.8). If 20 per cent or more of the voting power are held, it is assumed that there is significant influence, unless it can be demonstrated that this is not the case (IPSAS 36.11). A controlling entity with significant influence over an entity accounts for its investment using the equity method (IPSAS 36.22).

Joint ventures

Joint arrangements are organisational units under the joint control with other organisations outside the group (IPSAS 37.7). In line with IPSAS 37.9 ff., a joint arrangement is an arrangement of which two or more parties have joint control over a specific collectively exercised activity. This includes joint operations and joint ventures. Whereas joint ventures are accounted for using the equity method, in respect to a joint operation the joint operator recognises in relation to its interest in a joint operation its assets, liabilities, revenues and expenses (IPSAS 37.23, 37.27).

Concept of control

IPSAS 35.14 defines control as follows: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

[27] Excluded are controlled entities which meet all the following conditions: the entity itself is a controlled entity whose debt and equity instruments are not traded in a public market, whose financial statements are not filed with a regulatory organisation and whose controlling entity produces financial statements in line with IPSAS (IPSAS 35.5).

The following three diagrams provide an overview of the control concept in line with IPSAS 35.18 ff.

The notion of control

Identification of the controlling entity	Identification of the relevant activities and how the decision on these is made	Assessment whether an entity has power over the relevant activities (35.23-.29)	Assessment whether an entity is exposed, or has rights to, variable benefits (35.30-.34)	Link between power and benefits (35.35-.37)
• The controlled entity is usually **the entire legal entity** • Control can also relate only to a **specific sub-area** of definable assets and liabilities; as a result, only these assets and liabilities are to be treated as controlled entity	• Founding purpose of the entity? • Control over the relevant activities on the basis of voting power or further binding arrangements / other rights? • Which party bears the risks and rewards of the entity? • What are the relevant processes (e.g. sale of goods)? • How are decisions on relevant processes made?	a) Power **on the basis of** majority of voting rights* b) Power **without** the majority of voting rights	Variable benefits vary with the performance of the subsidiary and can be both positive and negative	Control exists only when power can be used to influence the returns from the investee

*Exception: Substantial rights are determined by others.

Voting power

An entity, which **holds more than half of the voting rights** has power over the investee (35.AG33), if	An entity which **does not hold the majority of voting rights** can exercise power over an investee through (35.AG36)
the relevant business activities can be directed **directly** by the **holder of the majority of voting rights**, or	**power to appoint or remove** a majority of the members of the board of directors,
a **majority of the members of the governing body** which make such decisions can be appointed,	**binding arrangements** with other holders of voting rights,
unless:	**rights** arising from other binding arrangements,
another party has existing rights to direct the relevant business activities without it being an agent of the entity making the assessment of control, or	**de facto control**, i.e. if the existing voting rights, despite the lack of a majority of voting rights, is sufficient to determine the **relevant business activities** as, for example, there is a large number of other shareholders, which have not concluded a voting rights agreement with each other,
the **rights of the investor are not substantive**, e.g. as the relevant business activities can be directed by government, courts, liquidators.	**substantive potential voting rights** (voting rights which can be exercised at any time which are not deeply out of money),
	or a **combination of voting rights or other decision-making rights**.

Power when voting rights are not substantive

When voting rights are not substantive, the investor considers the purpose and the structure of the companies (taking into account the distribution of risks of the entity across the participating investors) and the following factors (35.AG35):

- Evidence of the **practical ability to determine the relevant activities** (e.g. the contractual right to appoint the key management which directs the relevant activities), or
- **Special relationships** with the company, e.g. if the business activities of the company are dependent on the investor, or
- **High risk exposure** of the investor due to variability of benefits.

Substantive rights
(35.AG25-28)

When **determining power** only rights which are regarded as **substantive rights** should be considered. A right is substantive if the holder has the **practical ability** to exercise that right. To be taken in consideration here:

- Are there **economic** or **other barriers** which prevent the holder from exercising his rights?
- Do various parties have to **act collectively** for the practical ability to exercise their rights?
- Would the holder of the rights benefit from their **exercise**?
- Can the rights be exercised **at any time**?
- **Are there rights of parties** which prevent the investor from exercising his rights?

Consolidation procedures

According to IPSAS 35.40, consolidation procedures take account of the following steps:

a) Combine like items of assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity with those of its controlled entities.

b) Offset (eliminate) the carrying amount of the controlling entity's interest in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity.

c) Eliminate in full intra-economic entity assets, liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intra-economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements.

All members of the economic entity use uniform accounting policies. Otherwise adjustments are to be made to ensure conformity with the accounting policies of the economic entity (IPSAS 35.38, 35.41).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	Application of the principles of IPSAS 35 for the presentation and preparation of consolidated financial statements. (IPSAS 35.1)	Application of the rules of 290 HGB ff. for the presentation and preparation of consolidated financial statements.
Recognition		
Control	All entities over which control can be exercised must be included in the consolidated financial statements. (IPSAS 35.39)	All entities over which control can be exercised must be included in the consolidated financial statements. (Section 294 HGB)
	Control exists when the criteria of power, variable benefits and the link between power and benefits are satisfied. (IPSAS 35.18ff)	Control exists with the majority of voting rights, the right to appoint/dismiss the majority of the members of the body determining financial and operating policy, existence of a control agreement/provisions in the articles of association and when the majority of rewards and risks is transferred to a special-purpose entity. (Section 290 HGB)
		These are four typical facts which always result in an irrebuttable presumption of control; however, the list is not exhaustive. (cf. GAS 19.16)
Options	No options / explicit exemptions, but the Conceptional Framework states that information can be omitted if not material. (IPSAS CF 3.32-3.34)	Exemption options on inclusion in the scope of consolidation. No consolidation due to restrictions in exercising rights, disproportionate costs/time, intention to resell and materiality. (Section 296 (1) and 2 HGB)
Date of initial recognition	Starts with control of the controlled entity by the controlling entity. (IPSAS 35.39)	Starts with control of the subsidiary by the parent company. (Section 290 (1) HGB in conj. with Section 310 (2) HGB)

	IPSAS	HGB
Measurement		
Reporting date	Financial statements need not have the same reporting date. (IPSAS 35 BC52) However, in the case of different reporting dates, interim reporting is necessary. If this is not feasible, adjustment of the available financial statement for significant transactions or events of importance for the results and the financial position. (IPSAS 35.46)	Consolidation with (interim) financial statements prepared as at the same date. Consolidation with a different reporting date possible, if the financial statements reporting date differs by less than three months; in this case adjustment of significant transactions and events for the results and the financial position of the consolidated unit or disclosures on the same in the notes. (Section 299 HGB)
Uniform accounting policies	Controlling entity prepares consolidated financial statements using uniform accounting policies. (IPSAS 35.38) To do this, appropriate adjustments are to be made for the entities included in the consolidated financial statements. (IPSAS 35.41)	Parent company prepares consolidated financial statements using uniform accounting policies. Appropriate adjustments to be made on the part of the controlled companies (CB II). (Section 297 (3) S. 1 HGB)
Loss of control	With the loss of control, controlled entity is to be deconsolidated. (IPSAS 35.52)	With the loss of control, controlled entity is to be deconsolidated. (Section 297 (3) S. 1 HGB)
Investment entity	Investments of investment entities are to be measured at fair value. (IPSAS 35.58)	No equivalent exception

2.2.2 Notable practical insights from implementation

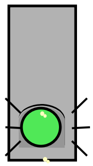
The following insights resulted from implementing the standard:

Scope of consolidated financial statements	In comparison to the consolidated financial statements in line with national regulations, the scope of consolidation has been extended by seven units. This is due in particular to the fact that options are applied under national accounting rules. However, in principle – in the case of the state of Hesse – a common definition for the scope of consolidation in line with German commercial law and IPSAS is possible.
Financial statements of controlled entities	The reporting dates of the controlled entities is 31 December – as for the state of Hesse. However, for preparing the IPSAS consolidated financial statements, the basis is the financial statements of the previous year (i.e. 31 December 2018 for IPSAS consolidated financial statements as at 31 December 2019), as more recent data were not available and a restatement of the data basis was waived. This results in lack of clarity and challenges in the consolidation. Furthermore, the adjustment to uniform accounting policies for material factors was implemented on a central basis. In standard operations, adequate processes – both at the level of the state and also at the level of the controlled entities – are to be set up and established, which as far as possible allow consolidation of the entities as at the current reporting day, taking account of uniform accounting policies and the efficient preparation of disclosures in the notes (e.g. using IPSAS reporting packages).

2.2.3 Fit-for-purpose accounting by applying IPSAS?

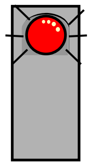
a. Summary of assessment

IPSAS 35 ensures fit-for-purpose accounting (in part.)



Scope of consolidated financial statements	• The control concept in IPSAS 35 results in the consolidation of the entire sphere of influence of the controlling entity in the consolidated financial statements. Here the deviating addition in IFRS, to be applied by the private sector, that control exists when non-financial benefits result from the interests (as opposed to purely financial variable returns), takes into particular account the priority of thematic objective for the public sector. • Supported by the relevant information in line with IPSAS 38, the definition of the scope of consolidation results in a transparent and verifiable presentation of the possibilities of influence. This increases the informational function of the financial statements.
Uniform accounting policies	• The mandatory application of uniform accounting policies in the scope of consolidation avoids different treatment of the same facts within the sphere of influence of the controlling entity.

IPSAS 35 does not ensure fit-for-purpose accounting (in part.)



Scope of consolidated financial statements	• As a result of expanding the scope of consolidation to entities which go beyond the (core) budget of the reporting entity, the scope of reporting in the IPSAS consolidated financial statements does not correspond to that for the accountability and budget determination of the relevant object under consideration. The budget data relevant for budget law and accountability are thus only part of the IPSAS consolidated financial statements. The relevant disclosures in the notes on budget information can contribute to increased transparency and verifiability of the connections relevant for the budget and the IPSAS scope of consolidation (cf. IPSAS 24.8).

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition Scope of consolidated financial statements
Transparency, (appropriate) informational content for users and understandability		Yes
		• Complete presentation of the scope of consolidation (influenced by the materiality principle) • Account taken of thematic objectives of the public sector with the addition that control exists even if non-financial benefits result from the interest
Data quality		Yes
		• Consolidation of interests on the basis of separate (audited) financial statements
Comparability		Yes
		• Comparability secured with clear regulation
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		
Comments / Information		• As a result of expanding the scope of consolidation to entities which go beyond the (core) budget of the reporting entity, the scope of reporting in the IPSAS consolidated financial statements does not correspond to that for the accountability and budget determination of the relevant object under consideration.

Measurement	Presentation	Disclosures in the notes
Uniform accounting policies	-	-
Yes		
• Transparency secured on the basis of mandatory application of uniform accounting policies		
n/a		
Yes		
• Avoidance of different treatment of the same facts within the sphere of influence of the controlling entity on the basis of mandatory application of uniform accounting policies		
IPSAS offers fit-for-purpose accounting		

2.3 IPSAS 36: Investments in Associates and Joint Ventures

2.3.1 Theoretical background

Scope

The objective of IPSAS 36 is to prescribe accounting for interests in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for these interests (IPSAS 36.1). This standard is to be applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest (IPSAS 36.3).

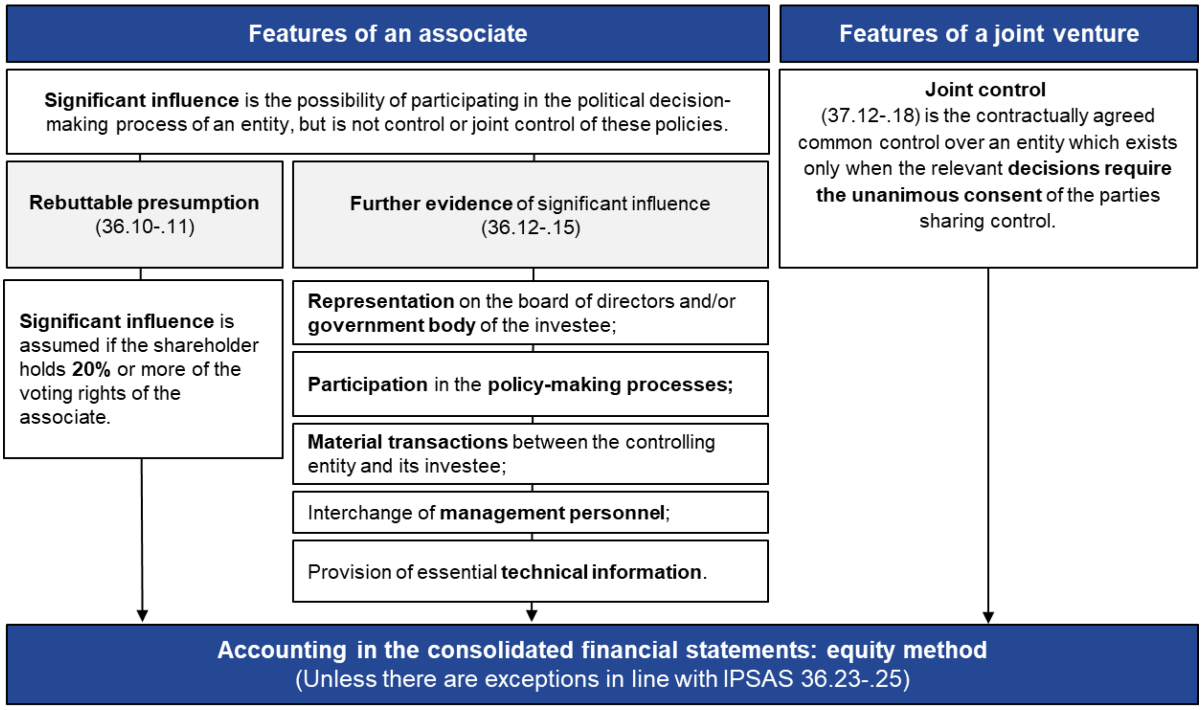
Recognition and measurement

Joint control and significant influence are defined in IPSAS 36.8 as follows:

— Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

— Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

The following diagram provides an overview on the differences between associates and joint ventures.



An entity with significant influence over, or joint control of, an investee accounts for its investment in an associate or a joint venture using the equity method (IPSAS 36.22). The initial and subsequent measurement are to be implemented as follows:

	Measurement steps	
Measurement at recognition	Initial measurement	The investee is to be measured at cost.
	Allocation of cost	Cost is to be allocated on the balance of the identified assets and liabilities measured at fair value and any remaining goodwill (or if required, revenue).
Subsequent measurement	Updating the total carrying amount	The **total carrying amount** is to be updated on the basis of the **pro rata changes in net assets / equity**:
	Updating goodwill and fair value adjustments	Fair value adjustments on assets which can be depreciated or amortised are to be adjusted: goodwill is not to be amortised.
	Transactions with the group	Extensive regulations for upstream and downstream transactions
	Impairment test	After implementing the equity method, an impairment test is to be implemented as follows: • In line with the criteria in IPSAS 41, if there are objective evidence of impairment • In line with IPSAS 21/IPSAS 26 on determining the level of impairment

Requirements for the financial statements	
Re-porting date	Reporting date may deviate by a maximum of **3 months**.
Ac-counting rules	**Uniform accounting rules** are to be used (Exception: investment entity which measures its interests at fair value).

Differences IPSAS / HGB

	IPSAS	HGB
Recognition		
Significant influence	Possibility of participating in the financial and operating policy decisions of the investee, not control or joint control of those policies. (IPSAS 36.8) Rebuttable presumption that there is significant influence with a share of at least 20%. (IPSAS 36.10-11) Further evidence of significant influence in line with IPSAS 36.12	Power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies. Rebuttable presumption that there is significant influence with a share of at least 20%. (Section 311 HGB) Further evidence of significant influence in line with DRS 26.18
Options	In line with the Conception Framework, information can be omitted if not material. (IPSAS CF 3.32-3.34)	Exemption options in line with Section 311 (2) HGB if not material.
Date of initial recognition of the equity method	Starts with the significant influence of the controlling entity on the associate. (IPSAS 36.23)	Starts with the significant influence of the controlling entity on the associate. (Section 312 (3) HGB)
Date of initial recognition of associate	Initial recognition at cost In an additional calculation, the cost of the interest is to be allocated to the balance of the assets and liabilities identified at fair value and a remaining difference recognised in net assets/equity. (IPSAS 36.16)	Initial recognition at cost In an additional calculation, the cost of the interest is to be allocated to the balance of the assets and liabilities identified at fair value and a remaining difference recognised in net assets/equity. (Section 312 HGB)
Goodwill	Goodwill is not amortised. (IPSAS 36.35 (a))	Goodwill is amortised. (Section 312 (2) sentence 3 HGB and Section 253 (3) sentence 4 HGB)
Badwill	Badwill is recognised directly as revenue. (IPSAS 36.35 (b))	Any badwill is to be carried as a liability and be treated in line with the type of difference. (Section 312 (2) sentence 3 HGB and GAS 23.139 ff.)
Measurement		
Reporting date	Financial statements need not have the same reporting date. (IPSAS 36 BC10) In the case of different reporting dates, interim reporting is necessary. If this is not feasible, adjustment of the available financial statement for the effect of significant transactions or events for the results and the financial position. (IPSAS 36.36)	The basis is the last consolidated financial statements of the associate. (Section 312 (6) HGB) As a general rule, events significant for the results and the financial position of the associate need not to be taken into account; in the case of a negative impact on the view of the results and the financial position of the consolidated financial statements requirement to make disclosures in the notes. (GAS 26.27)

	IPSAS	HGB
Uniform accounting policies	Controlling entity prepares consolidated financial statements using uniform accounting policies. Appropriate adjustments are to be made on the part of the associates. (IPSAS 36.37-.38)	Elective adjustment to uniform group accounting policies. Disclosure if no adjustment is made. (Section 312(5) sentence 1 HGB and GAS 26 Note 30)
Elimination of intra-economic entity profits/losses	Consolidation of intra-economic entity transactions required (e.g. elimination of intra-economic entity profits/losses). (IPSAS 36.29 in conj. with IPSAS 35.40)	Consolidation of intra-economic entity transactions required (e.g. elimination of intra-economic entity profits/losses). (Section 312 (5) sentence 3 HGB in conj. with Sections 304 and 306)
Subsequent method equity method	In subsequent periods, the equity carrying amount is to be increased or decreased by the amount of the controlling entity's share of the associate. Here the identified hidden reserves and liabilities and any remaining goodwill are to be continued. (IPSAS 36.16 ff.)	In subsequent periods, the equity carrying amount is to be increased or decreased by the amount of the controlling entity's share of the associate. Here the identified hidden reserves and liabilities and any remaining goodwill are to be continued. (Section 312 (4) HGB)
Impairment losses	Application of impairment test requirements in line with IPSAS 41, 21 and 26. (IPSAS 36.43 ff.)	Impairment in line with the general regulations of Section 253 HGB.
Discontinuing the use of the equity method	The equity method is to be discontinued with loss of significant influence. (IPSAS 36.26)	The equity method is to be discontinued with loss of significant influence. (Section 311 HGB)

2.3.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Reporting date

All reporting dates of the entities recognised in line with the equity method are 31 December – as for the state of Hesse. However, for non-listed entities, the financial statements are generally available only after the preparation of the consolidated financial statements, so that the consolidation must take place on the basis of the previous year financial statements (i.e. 31 December 2018 for consolidated financial statements with the 31 December 2019 reporting date).

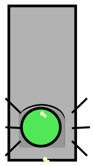
Uniform accounting policies

Unlike national regulations, in line with IPSAS the application of uniform accounting policies is mandatory, also for associates. In the project the necessary adjustments were made on the basis of the information contained in the financial statements of the significant associates. In standard operations it would be sensible to receive relevant information from the relevant entities in a specific request – however, in practise this is likely to be a challenge due to the restricted possibilities for exerting influence.

2.3.3 Fit-for-purpose accounting by applying IPSAS?

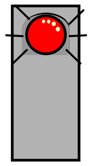
a. Summary of assessment

IPSAS 36 <u>ensures</u> fit-for-purpose accounting (in part.)



Measurement	• In general, accounting in line with the equity method offers an appropriate presentation of interests in associates, which has proved itself in accounting on a national commercial law and also international basis. Supported by the required disclosures in the notes in line with IPSAS 38, the users are presented the valuation of interests in associates in an understandable fashion.
Uniform accounting policies	• The mandatory application of uniform accounting policies, also for entities recognised in line with the equity methods, avoids different treatment of the same items of the entities presented in the consolidated financial statements.
Goodwill	• Any goodwill/badwill from investments in associates is to be determined in the context of an additional calculation of the equity value – an in the case of goodwill – to be continued. For an assessment of whether the treatment of goodwill for interests recognised in line with IPSAS 36 is fit for purpose, the statements on IPSAS 40 also apply (cf. Chapter 2.6).

IPSAS 36 <u>does not</u> ensure fit-for-purpose accounting (in part.)



Impairment	• Impairment of interests recognised according to the equity method are to be performed in line with IPSAS 21 and IPSAS 26 The difficulties in distinction determined in relation to these standards and criticism with relation to determining the recoverable amount (cf. Chapter D.4) are also valid in respect to their application on the carrying amounts of associates.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition For the treatment of goodwill and badwill, refer to IPSAS 40	Measurement Uniform accounting policies
Transparency, (appropriate) informational content for users and understandability			Yes
			• Equity method generally appropriate way of presentation • Understandable presentation of the valuation of associates supported by the necessary disclosures in the notes (IPSAS 38) • Transparency on the basis of mandatory application of uniform accounting policies
Data quality			Yes
			• Accounting for interests on the basis of separate (audited) financial statements
Comparability			Yes
			• Comparability secured with clear regulation • Avoidance of different treatment of the same facts within the sphere of influence of the controlling entity on the basis of mandatory application of uniform accounting policies
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion			
Comments / Information			• Due to limited influence on these interests, obtaining the figures for the IPSAS financial statements is time-consuming

Measurement	Presentation	Disclosures in the notes
On impairment cf. IPSAS 21 and IPSAS 26	-	-
IPSAS offers fit-for-purpose accounting		
• Impairment of interests recognised according to the equity method are to be performed in line with IPSAS 21 and IPSAS 26		

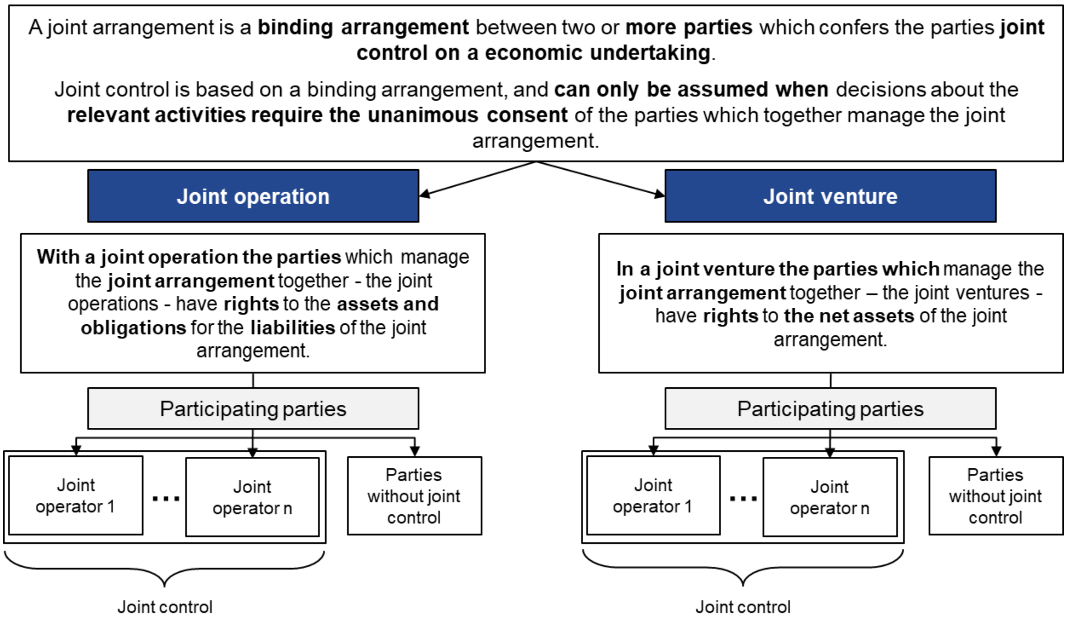
2.4 IPSAS 37: Joint Arrangement

2.4.1 Theoretical background

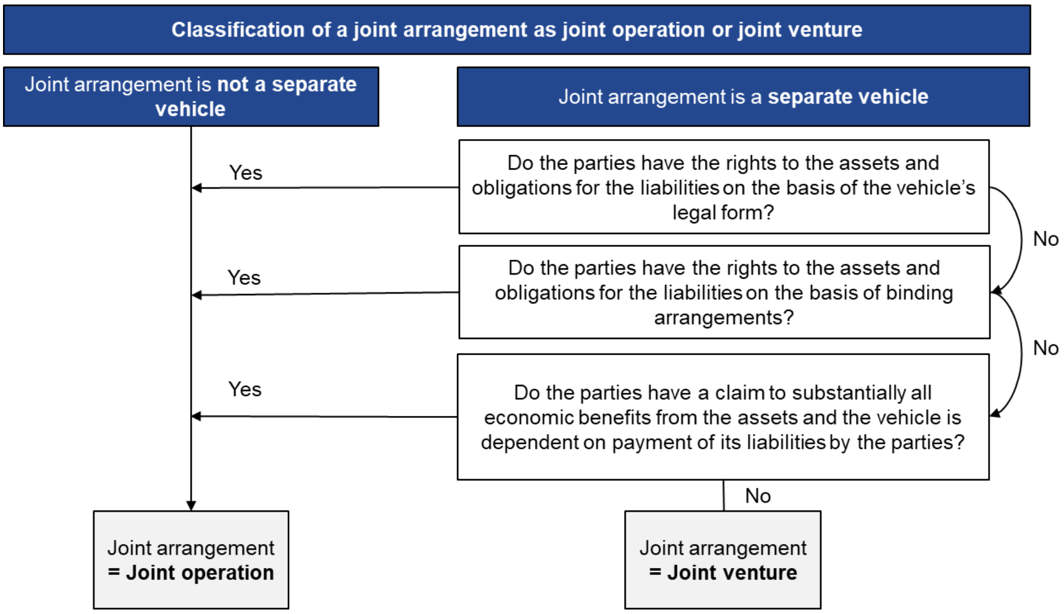
Scope

In line with IPSAS 37.1 the objective of this standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). This standard is to be applied by all entities that are a party to a joint arrangement (IPSAS 37.3-37.4).

The following diagram provides an overview of the definitions in IPSAS 37.7:



In line with PSAS 37.11, a joint arrangement is either a joint operation or a joint venture. The following diagram contains regulations on the relevant classification (IPSAS 37.19-.20).



Recognition and measurement

The following diagram gives an overview of accounting for joint operations and joint ventures in the group (IPSAS 37.23-.28).

Parties of a joint operation			Parties of a joint venture	
Joint operators	Other parties*		Joint ventures	Other parties*
• Recognition of **pro rata** assets and liabilities • Recognition of pro rata revenue and expenses • Application of IPSAS 40 in the case of an acquisition or an acquisition of an additional interest	Same accounting as in the consolidate-ed financial statements of a joint operator	In line with the standard to be applied	**Equity method** in line with IPSAS 36.	• If significant influence: accounting in line with IPSAS 36: **Equity method** • Otherwise: accounting in line with IPSAS 41

*Participation in the joint arrangement without joint control.

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
Definition **Joint control**	Agreed sharing of control of an arrange-ment (IPSAS 37.7)	Effective equal exercise of control on finan-cial and business policy. (GAS 27.7)
Differentiation between joint venture and joint op-eration	*Joint venture* = joint arrangement whereby the parties that have joint control of the ar-rangement have rights to the net assets of the arrangement. *Joint operation* = joint arrangement whereby the parties that have joint control of the arrangement have rights to the as-sets, and obligations for the liabilities, relat-ing to the arrangement. (IPSAS 37.7)	No such differentiation.
Recognition		
Method of accounting	*Joint venture:* Equity method in line with IPSAS 36 *Joint operation:* Recognition of assets, lia-bilities, revenue and expenses in relation to interest (≠ proportionate consolidation). (IPSAS 37.23-28)	According to HGB, there is an option of choosing between proportionate consolida-tion and equity method. (Section 310 HGB & Section 312 HGB)

	IPSAS	HGB
Exemptions	No explicit exemptions, but the Conceptional Framework states that information can be omitted due to immateriality. (IPSAS CF 3.32- 3.34)	Exemption options in line with Section 311 (2) HGB if not material.
Measurement		
Reporting date	*Joint ventures:* Financial statements need not have the same reporting date. (IPSAS 37.27 in conj. with IPSAS 36. BC10) However, in the case of different reporting dates, interim reporting is necessary. If this is not feasible, adjustment of the available financial statement for the effect of significant transactions or events for the results and the financial position. (IPSAS 37.27 in conj. with IPSAS 36.36)	*Proportionate consolidation:* Consolidation with (interim) financial statements prepared as of the same reporting date. Consolidation with a different reporting date possible, if this differs by less than three months; in this case, adjustment for the effects of significant transactions and events for the results and the financial position of the consolidated unit or disclosures on the same in the notes. (GAS 27.34) *Equity method:* The basis is the last consolidated financial statements of the entity. (Section 312 (6) HGB) As a general rule, events significant for the results and the financial position of the associate need not to be taken into account; in the case of a negative impact on the view of the results and the financial position of the consolidated financial statements requirement to make disclosures in the notes. (GAS 26.27)
Uniform accounting policies	*Joint ventures:* Adjustment to uniform group accounting policies. (IPSAS 37.27 in conj. with 36.37-.38). *Joint operation:* Application of the IPSAS on assets and liabilities relating to the joint operator. (IPSAS 37.24)	*Proportionate consolidation*: Adjustment to uniform group accounting policies. (GAS 27.33) *Equity method*: Optional adjustment to uniform group accounting policies. Disclosures if there is no adjustment. (Section 312(5) sentence 1 HGB and GAS 26 Note 30)

2.4.2 Notable practical insights from implementation

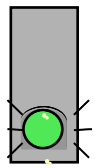
The following insights resulted from implementing the standard:

In the state of Hesse, there are currently no such significant joint arrangements. Thus, no practical experience can be derived from the preparation of the IPSAS consolidated financial statements.

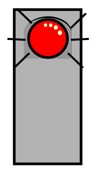
2.4.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 37 <u>ensures</u> fit-for-purpose accounting (in part.)

Scope	• The explicit differential between joint ventures and joint operations in IPSAS with corresponding requirements for presentation in the consolidated financial statements promotes transparency of presentation – supported by the relevant disclosures in the notes in line with IPSAS 38.	
Method of accounting	• The clear specification of an accounting method both for joint ventures and also for joint operations, with no options ensures it is possible to compare the financial statements of different entities.	
Uniform accounting policies	• As joint ventures are recognised using the equity method in line with IPSAS 36, the corresponding positive emphasis on the mandatory application of uniform accounting policies when applying the equity method to joint ventures is valid as with the comments on IPSAS 36.	
Goodwill	• As joint ventures are recognised using the equity method in line with IPSAS 36, the comments on goodwill in IPSAS 36 apply similarly.	

IPSAS 37 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Impairment	• As joint ventures are recognised using the equity method in line with IPSAS 36, the comments on difficulties in distinction determined and criticism with relation to determining the recoverable amount goodwill stated in IPSAS 36 and IPSAS 21/26 apply similarly.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	**Scope** **Differentiation joint arrangements vs operations**	**Recognition** **For the treatment of goodwill and badwill, refer to IPSAS 40**	**Measurement** **Method of accounting**
Transparency, (appropriate) informational content for users and understandability	Yes		Yes
	• Explicit differentiation between joint ventures and joint operations • According to German law, similarities to terms can be established (joint ownership vs. fractional ownership)		• Clear specification of an accounting method both for joint ventures (equity method) and for joint operations (proportionate recognition of assets and liabilities) • Interests recognised as separate item in the statement of financial position
Data quality	n/a		Yes
			• Accounting for interests on the basis of separate (audited) financial statements
Comparability	Yes		Yes
	• Comparability secured with clear regulation		• Lack of options results in high level of comparability between reporting entities
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion			
Comments / Information			

Measurement		Presentation	Disclosures in the notes
On the consideration of uniform accounting policies when applying the equity method cf. IPSAS 36	**On impairment cf. IPSAS 21 and IPSAS 26**	-	-
Yes			
• Uniform accounting policies used on a uniform basis for all interests of the reporting entity • Internal comparison possible			
Yes			
• Accounting for interests on the basis of separate (audited) financial statements			
Yes			
• Clear regulation • Comparability across various (sub-) entities also possible			
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
	• Impairment of joint ventures recognised according to the equity method are to be performed in line with IPSAS 21 and IPSAS 26		

2.5 IPSAS 38: Disclosures of Interests in other Entities

2.5.1 Theoretical background

Scope

According to IPSAS 38.1, the objective of this standard is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated. In addition, users of its financial statements should be enabled to evaluate the effects of those interests on its financial position, financial performance and cash flow.

This IPSAS is to be applied when an entity has an interest in one of the following: controlled entities, joint arrangements (i.e. joint operations or joint ventures), associates, or structured entities that are not consolidated (IPSAS 38.3).

Disclosures in the notes

To meet the objective in paragraph IPSAS 38.1, in line with IPSAS 38.9 disclosures are to be made on the significant judgements and assumptions made in determining the nature of the interest in another entity and in classifying joint arrangements. The following diagram provides an overview of the disclosures in the notes relating to the different types of interest.

Subsidiaries

Example
- Group composition
- Table with relative interests, if relevant, including changes
- Gains and losses from the controlling interest
- Risks

General disclosures (IPSAS 38.17-.26)

Example
- Name, relationship, domicile
- Level of ownership interest, and, if different, share of voting rights held

Associates

Example
- Basis of measurement

Equity method:
- Dividends
- Financial information
- Reconciliation to equity carrying amount

General disclosures (IPSAS 38.35-.39)

Example
- Name, relationship, domicile
- Level of ownership interest, and, if different, share of voting rights held

Joint Arrangements (IPSAS 38.35-.39)

Joint operations

General information

Example
- Name, relationship, domicile
- Level of ownership interest, and, if different, share of voting rights held

Joint ventures

General information

Example
- Name, relationship, domicile
- Level of ownership interest, and, if different, share of voting rights held

Example
- Basis of measurement

Equity method:
- Dividends
- Financial information
- Reconciliation to equity carrying amount

Non consolidated entities

Other investments

General information (IPSAS 38.27-.33, .40-.48)

Example
- Type of investment
- Purpose, size, activities

Additional information, if appropriate:
- Liquidity agreements
- Financing forms

In no interest is held:
- Explanation on the origin of the relationship

	IPSAS	HGB
Disclosures in the notes		
Disclosure of information on interests in other entities	Information on any significant judgements and assumptions made in determining the nature of the interest in another entity or the classification of joint arrangements. (IPSAS 38.9(a))	If a subsidiary is not included in the consolidated financial statements by virtue of an equity interest conveying a majority of the voting rights, the circumstances that allow control to be exercised shall be disclosed in the notes to the consolidated financial statements. (GAS 19.111)
	Information on the scope of consolidation, i.e. interests in (joint) controlled entities/ associates, etc. (IPSAS 38.9(b))	Information on the scope of consolidation, i.e. interests in (joint) controlled entities/associates, etc. (Section 313 (2) HGB, GAS 19.107-109)
Significant judgements and assumptions	Information on any significant judgements and assumptions exercised or made in determining that the controlling entity has control of another entity, has joint control of an arrangement or significant influence over another entity and the type of joint arrangement (i.e. joint operation or joint venture), when the arrangement has been structured through a separate vehicle. (IPSAS 38.12ff.)	Explanations on items which require inclusion in the consolidated financial statements if the inclusion is based on a majority which does not correspond to the equity interest. (Section 313 (2) No. 1 HGB, GAS 19.107 and .111 f.) Information on assessment of the immaterial significance of associates in line with Section 311 (2) HGB. (Section 313 (2) No. 2, GAS 26.84) Information on facts which resulting in proportionate consolidation in line with Section 310 HGB. (Section 313 (2) No. 3, GAS 27.57)

	IPSAS	HGB
Investment entity status	Information about reasons for the classification as an investment entity in line with IPSAS 35 as well as reasons and the quantitative effect of a status change. (IPSAS 38.15 and .16)	--
Interests in controlled entities	Information that enables users to understand the composition of the economic entity, the nature of, and changes in, the risks associated with its interests, the consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control and the consequences of losing control of a controlled entity during the reporting period. (IPSAS 38.17) Information when a controlled entity has financial statements as of a different reporting date (reporting date, reasons for difference). (IPSAS 38.18)	Information on the controlled entity (including name, domicile, share of capital). (Section 313 (2) No. 1 HGB, GAS 19.107ff.) Disclosures on the exercise of inclusion exceptions. (GAS 19.115 ff.) Disclosures on changes to the basis of consolidation. (GAS 19.119 ff.) When consolidation takes place on the basis of financial statements with a different reporting date, disclosure of significant events between the two reporting dates (if not included in the presentations of results / equity). (HGB Section 299 (3))
	Qualitative (name, domicile, legal form) and quantitative (summarised financial information), information on the controlled entity with proportion of interests and information on the proportion of interests held by non-controlling interests and the surplus or deficit allocated to them during the reporting period. (IPSAS 38.19 ff.)	--
	Information on possible restrictions on the ability to access the assets of the controlled entity and protective rights of the controlled entities. (IPSAS 39.20 ff.)	Disclosures on the exercise of inclusion options (GAS 19.115 ff.)

	IPSAS	HGB
Investment entities	Investment entities that in line with IPSAS 35 apply exceptions to consolidation and instead account for investments and controlled entities at fair value through surplus or deficit must provide specific information on the relevant controlled entity and the relations and transactions between investment entity and controlled entity. (IPSAS 38.27ff.)	--
Interests in joint arrangements and associates	Disclosure of information that enables users to evaluate the nature, extent and financial effects of its interest in joint arrangements and associates, including the nature and effect of its relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates and the nature of, and changes in, the risks associated with its interests in joint ventures and associates. (IPSAS 38.35 ff.)	Disclosures on associates and entities consolidated on a proportionate basis (Section 313 (2) No. 2 and 3 HGB, GAS 26.80 ff., GAS 27.57 ff)
Interests in structured entities that are not consolidated	Disclosure of information that enables users to understand the nature and extent of its interests in structured entities that are not consolidated and to evaluate the nature of, and changes in, the risks associated with its interests in structured entities that are not consolidated. (IPSAS 38.40 ff.)	Information on nature and purpose as well as risks, benefits and financial impact of transactions not included in the consolidated financial statements to the extent that the risks and benefits are material and are material for an assessment of the financial position of the group. (Section 314 (1) No. 2 HGB)
Non-quantifiable ownership interests	Disclosure of information that enables users to understand the nature and extent of any non-quantifiable ownership interests in other entities. (IPSAS 38.49 f.)	--
Controlling interests acquired with the intention to sell	Information on controlled entities acquired with the intention to sell (IPSAS 38.51 ff.)	No consolidation of interests with the exclusive purpose of resale (Section 296 (1) No. 3 HGB); Information in line with GAS 19.155 ff.

2.5.2 Notable practical insights from implementation

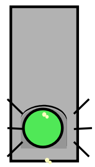
The following insights resulted from implementing the standard:

Disclosures in the notes	Specific information on investment entities were not and are not necessary, due to the lack of relevant items in the state of Hesse. Without determining additional data, the majority of the other disclosures can be derived from accounting and the financial statements of the consolidated entities. After the initial preparation of the disclosures in the notes, it seems possible that these can be prepared with appropriate levels of work in standard operations.

2.5.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 38 <u>ensures</u> fit-for-purpose accounting (in part.)

Disclosures in the notes	• The information required in line with IPSAS 38 allows the users of the financial statements a better insight into the composition of the entity and the accounting decisions of the controlling entity preparing the financial statements. In general, it is considered that the disclosures provide a gain in information, the complexity of which seems appropriate for users of the financial statements.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope -	Recognition -
Transparency, (appropriate) informational content for users and understandability		
Data quality		
Comparability		
Summary		
Conclusion		
Comments / Information		

Measurement	Presentation	Disclosures in the notes
-	-	
		Yes
		• Information required allows a better insight into the composition of the entity • Information required allows overview on the accounting decisions • Disclosures in the notes are verifiable
		n/a
		• No additional determination of information required for the disclosures in the notes • BUT: Different preparation necessary
		Yes
		• Comparability secured with clear regulations
		IPSAS offers fit-for-purpose accounting

2.6 IPSAS 40: Public Sector Combinations

2.6.1 Theoretical background

Scope

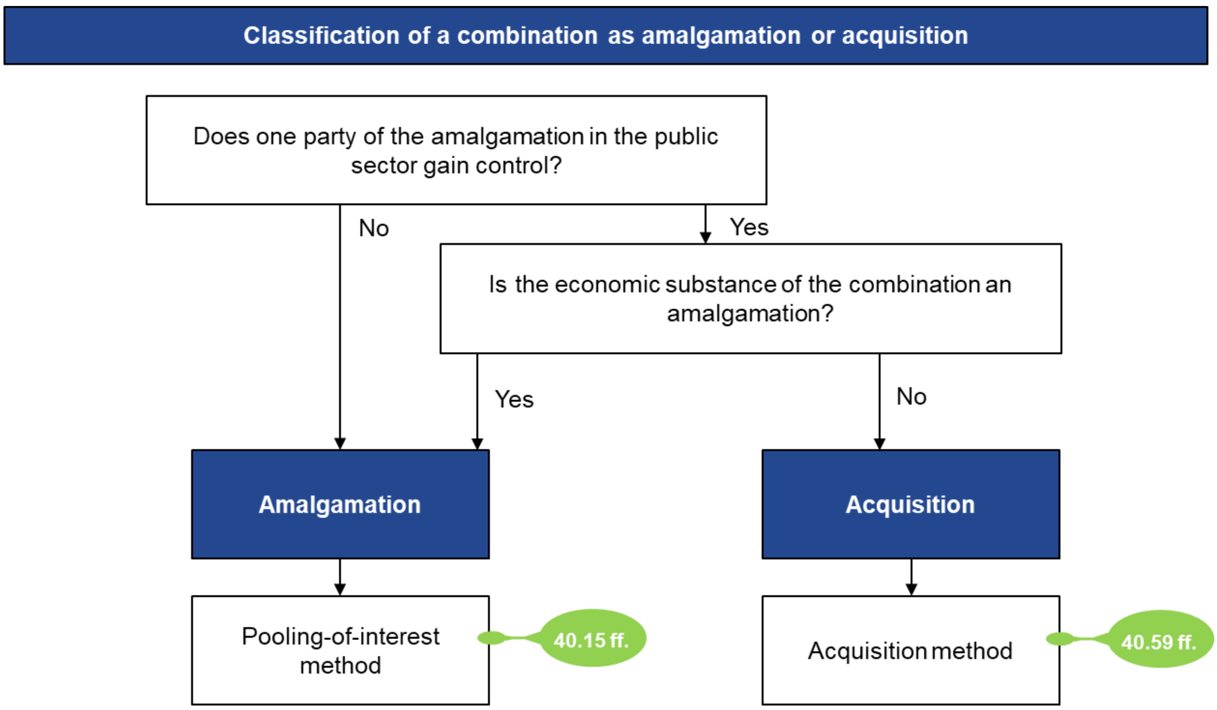
According to IPSAS 40.1 the objective of this standard is to standardise the classification and reporting of the public sector in the context of preparing financial statements. With the publication of the relevant information, the users of the financial statements should be enabled to evaluate the nature and financial effect of a public sector combination.

IPSAS 40 is to be applied to transactions or other events that meet the definition of a public sector combination, including “bringing together of separate operations into one public sector entity” (IPSAS 40.3, 40.5). Examples of such combinations are nationalisation (IPSAS 40.IE94 ff.), transfer of ministries of the central government (IPSAS 40.IE53 ff.), reorganisation of the local or regional government, for example, by realignment of regional borders or by combining entities (IPSAS 40.IE3 ff., .IE9 ff., .IE23 ff.), and transfer of activities between levels of government (or government entity) (IPSAS 40.IE72 ff.).

Recognition

In line with IPSAS 40, public sector combinations are classified either as amalgamations or acquisitions, with account being taken of gaining control and other factors. In the context of a two-stage classification approach, it is considered whether a party of the combination gains control over the operations and also assessed if the economic content of the combination indicates an amalgamation (IPSAS 40.7 ff.).

The approach for classification of public sector combinations is shown in the diagram below:



Measurement

Accounting for amalgamations

When accounting for amalgamations, the resulting entity applies the modified pooling of interests method (IPSAS 40.15). The entity resulting from the amalgamation is defined as an entity which combines two or more operations (IPSAS 40.5)

The modified pooling of interests method of accounting is a variant of the pooling of interests method (also known as merger accounting) where the amalgamation is recognised at the date on which the resulting entity obtains control of the combining operations.

The resulting entity recognises the assets, liabilities and minority interests that are recognised in the financial statements of the combining entities at the amalgamation date and measures them at their carrying amounts in the financial statements of the combining entities (IPSAS 40.26). The resulting entity recognises the difference between the assets and liabilities assumed in the amalgamation as one or more components of net assets/equity. An amalgamation does not give rise to hidden reserves (hidden liabilities) and goodwill (IPSAS 40.36).

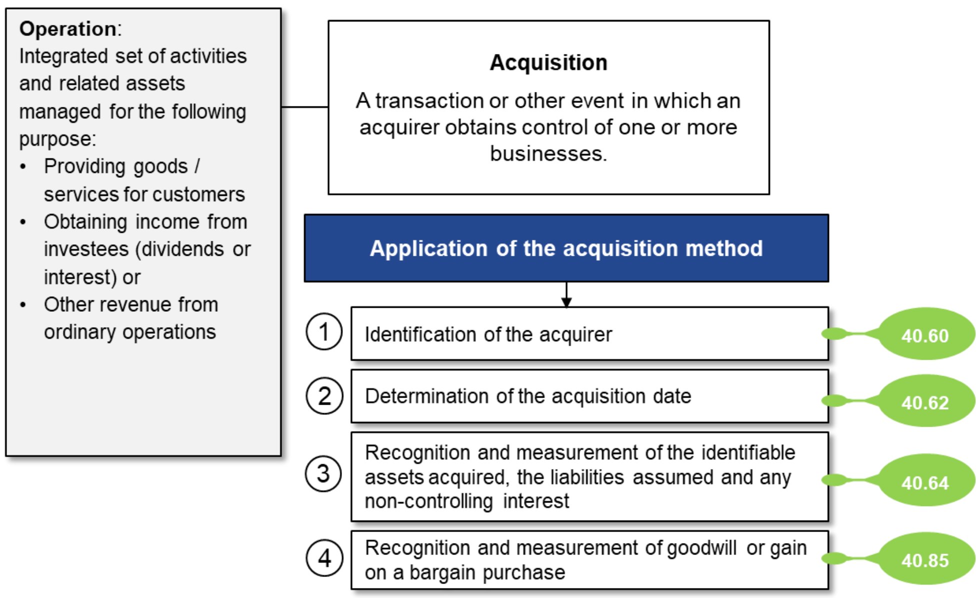
Accounting for acquisitions

When accounting for public sector combinations which do not satisfy the conditions for amalgamation, but that of an acquisition, the acquirer applies the acquisition method (IPSAS 40.58). In the context of the business combination, the acquirer gains control of the combined operations (IPSAS 40.60). The initial recognition and initial consolidation are followed by consolidation at group level. The acquisition of the acquired operation is shown in the consolidated financial statements as if no interest in the subsidiary entity had been acquired but rather individual assets and liabilities (fiction of individual acquisition). Separately from any goodwill recognised the acquirer recognises the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation (IPSAS 40.64). This may include items not previously recognised in the acquired operation (IPSAS 40.67). The acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values (IPSAS 40.72).

Goodwill is defined as an “asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognised” (IPSAS 40.5). Generally, goodwill is recognised only when a consideration is granted (IPSAS 40.86).

In a bargain purchase, the aggregate of the amounts of the identifiable assets acquired and the liabilities assumed exceeds the paid consideration. The resulting gain is attributed to the acquirer (IPSAS 40.88).

The following diagram provides an overview of the acquisition method in line with IPSAS 40.60ff.



Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	Specific standard for public sector combinations; differentiation between acquisitions and amalgamations	No specific regulations for the public sector; accounting for acquisitions is aligned to Sections 301, 307 and 309 HGB and GAS 23; for merger accounting, the regulations in UmwG are relevant.
Amalgamation		
Methods to be applied	Modified pooling-of-interest method (IPSAS 40.16)	Option between book value method and general acquisition cost principle in line with Sections 253 (1), 255 (1) HGB. (Section 24 UmwG; IDW RS HFA 42)
Measurement of the assets and liabilities transferred	Measurement at carrying amounts in the financial statements of the combining operations as of the amalgamation date; if necessary adjustments to the accounting policies of the resulting entity. (IPSAS 40.26 ff.)	Book value method: recognition and measurement of assets and liabilities with the carrying amounts in the closing balances of the transferring legal entity. (IDW RS HFA 42 Note 60ff.) Acquisition cost principle: Recognition of assets and liabilities to the extent recognition conditions in line with Section 246 (1) sentences 1-3 HGB are satisfied; measurement (determining cost) depending on case (merger with capital increase, new foundation or merger without capital increase). (IDW RS HFA 42 Note 36ff.)
Dealing with differences	Recognising differences between the assets and liabilities assumed as one or several components of net assets/equity; no hidden reserves (hidden liabilities) or goodwill arise. (IPSAS 40.36)	Book value method: No identification of hidden reserves and hidden liabilities; treatment of differences depending on whether the fusion is with or without a capital increase: • With capital increase: recognition of fusion gain in equity and fusion loss in profit/loss. • Without capital increase: Differentiation in line with fusion direction. (IDW RS HFA 68ff.) Cost principle: Identification of hidden reserves and hidden liabilities; recognition of goodwill if purchase price exceeds the market value of assets minus liabilities (IDW RS HFA 42 Notes 56 ff.); no recognition of negative difference.
Disclosures in the notes	Detailed information on the date, type and financial impact of the amalgamation and the impact of adjustments that relate to amalgamations that occurred in the period or previous reporting period. (IPSAS 40.53-57)	Preparation of a fusion report in line with Section 8 UmwG

	IPSAS	HGB
Acquisition		
Date of capital consolidation with acquisition method	Date from which control can be exercised General rule that control is obtained at closing. (IPSAS 40.62f.)	Time at which the company becomes a subsidiary. (Section 301 (2) HGB)
Methods to be applied	Acquisition method (IPSAS 40.58): full remeasurement (IPSAS 40.72) Identification of hidden reserves and liabilities as of the acquisition date (IPSAS 40.58 ff.) For treating goodwill, both the full goodwill and the partial goodwill methods are permitted.	Revaluation method (Section 301 (1) HGB). With the revaluation method, hidden reserves and hidden liabilities are identified. Only partial goodwill method permitted.
Measurement of assets and liabilities	Fair value of the identifiable assets, liabilities and contingent liabilities at acquisition date. (IPSAS 40.72)	Fair value of assets, liabilities, deferred and special items at the time the company becomes a subsidiary (Section 301 (2) sentence 1 HGB); this also includes (previously) unrecognised claims and obligations of the acquired entity to the extent they can be reliably estimated. (GAS 23 Note 51f.)
Accounting for goodwill	Goodwill is to be capitalised in the consolidated financial statements and tested for impairment (in line with IPSAS 26) at least once a year.	Goodwill is to be capitalised (Section 301 (3) HGB) and amortised over the useful life. (Section 309 (1) HGB)
Accounting for negative amounts	A negative difference from capital consolidation is to be recognised immediately in surplus or deficit.	Negative difference to be recognised as a liability (Section 301 (3) HGB). In line witch Section 309 (2) HGB, continuation of the negative difference is aligned to the cause of its origin (equity or debt character of the negative difference). (GAS 23 Note 139ff)
Disclosures in the notes	For an acquisition, detailed information on the time and type of acquisition are to be disclosed. (IPSAS 40,119-125)	For an acquisition, in the notes general information in line with Section 285 (11) in conjunction with Section 271 HGB with extensive additions to the same in line with GAS 23 Note 207 ff. are to be disclosed.

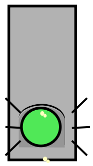
2.6.2 Notable practical insights from implementation

For the preparation of the IPSAS opening balance and the consolidated financial statements as at 31 December 2019, there were no items relevant for the application of IPSAS 40.

2.6.3 Fit-for-purpose accounting by applying IPSAS?

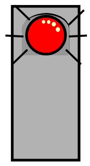
a. Summary of assessment

IPSAS 40 <u>ensures</u> fit-for-purpose accounting (in part.)



Scope	• With IPSAS 40, a standard was created which takes account of combinations in the public sector with explicit regulations on amalgamations as a form of combination. The differentiated presentation of transactions made possible in this way – depending on whether it relates to an amalgamation or an acquisition – reduces regulation gaps and thus judgements, increases the relevance of the information, while at the same time – collectively with the extensive disclosures in the notes – providing a high level or transparency for the users of financial statements.
Amalgamation – measurement	• The mandatory continuation of carrying amounts in the context of an amalgamation represents prudent, objectified accounting and reduces the possibility of flexibility, by not permitting the recognition of fair values. The scheduled recognition of differences via equity avoids both an immediate and also subsequent contact with the statement of financial performance as a result of the amalgamation process as such. • The generally uniform approach supports comparability between financial statements of different entities.
Acquisition – goodwill	• By specifying clear regulations for dealing with goodwill, the comparability of financial statements is fundamentally strengthened. On the basis of the necessary disclosures in the notes, the recognition in equity (goodwill) and recognition in profit and loss (badwill) amounts are explained to the users of the financial statements. • By classifying goodwill as a non-amortisable intangible asset, it is not subject to amortisation, but an annual impairment test in line with IPSAS 26, which although is subject to judgement, in principle prompts the assessment of the actual recoverability of the asset, instead of reducing it in value over time. Generally this should contribute to a realistic presentation of the asset situation.
Disclosures in the notes	• Extensive disclosures in the notes contribute to users of the financial statements being able to verify the underlying transactions and the regulations of IPSAS 40 implemented by the controlling entity (including the differentiation between amalgamation and acquisition), thus increasing the understandability and transparency of the financial statements.

IPSAS 40 does not ensure fit-for-purpose accounting (in part.)



Acquisition - measurement	• The identification of hidden reserves and hidden liabilities in the context of the acquisition method and the consequent necessary determination of fair values is generally subject to judgement. This applies specifically to the measurement of the intangible assets, e.g. brands, acquired in the context of the acquisition.
Measurement of minority interests.	• IPSAS 40 allows both the partial and full goodwill method. The application of this option is made understandable on the basis of the disclosures in the notes, but can result in different measurement of minority interests in the statement of financial position.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope General	Recognition No difference	Amalgamation Measurement of transferred assets and liabilities and differences	Acquisition Measurement of acquired assets and liabilities and differences
Transparency, (appropriate) informational content for users and understandability	Yes		Yes	Yes
	• Explicit regulation allows differentiated presentation of transactions (amalgamation vs. acquisition)		• Prudent and objectified accounting as a result of mandatory continuation of carrying amounts • Recognition at fair value not permitted	• For determining goodwill, the full goodwill and the partial goodwill method are permitted • Application of option is shown in a transparent and understandable way in connection with disclosures in the notes
Data quality	n/a		Yes	Yes
			• Amalgamation on contractual foundation, resulting in an objectifiable data basis • Recognition of differences via equity avoids subsequent contact with the statement of financial performance	• Purchase on contractual foundation, resulting in an objectifiable data basis • Planned identification of hidden reserves and hidden liabilities can be subject to judgement
Comparability	Yes		Yes	No
	• Reduction of regulation gaps brings with it reduction of judgement and thus enhanced comparability for financial statements of different entities		• Comparability secured with clear regulations (no options)	• Planned identification of hidden reserves and hidden liabilities can be subject to judgement • Different valuations for minorities possible in respect to the method for determining goodwill
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion				
Comments / Information	• No application case in 2019 financial statements for the state of Hesse • IPSAS 40 regulations on acquisition and amalgamation were not assumed from IFRS (special features relating to the public sector)			

Acquisition		Presentation	Disclosures in the notes
Goodwill (cf. IPSAS 36, 37)	**Badwill** (cf. IPSAS 36, 37)	**No difference**	**Extended disclosures in the notes**
Yes	Yes		Yes
• Realistic presentation of assets by complete recognition of goodwill as intangible asset and implementation of an annual impairment test	• Badwill recognised directly as revenue		• Additional disclosures in the notes result in an informational gain
Yes	Yes		n/a
• At point in time of origin / acquisition of the interest, the value can be determined on an objectifiable and reliable basis • But: Subsequent measurement can be subject to judgement	• Value can be determined on an objectifiable and reliable basis • But: Revenue not recognised on an accrual basis		• Additional determination of information required for the disclosures in the notes
Yes	Yes		Yes
• Comparability secured with clear regulation	• Comparability secured with clear regulation		• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**		**IPSAS offers fit-for-purpose accounting**
	• Badwill occurs rarely in the private sector • Accounting for negative amounts in HGB more cautious		

3. Assets

3.1 Summary

This chapter assesses the following IPSAS which are to be applied in accounting for assets:

IPSAS Standard
IPSAS 17: Property, Plant and Equipment
IPSAS 16 Investment Property
IPSAS 13: Leases
IPSAS 31 Intangible Assets
IPSAS 5: Borrowing Costs
IPSAS 27: Agriculture
IPSAS 12: Inventories
IPSAS 32: Service Concession Arrangements: Grantor

The IPSAS in this area relevant to assets – as listed above – are assessed predominantly as fit for purpose. The contributing positive elements as well as certain points of criticism are combined in the following diagram.

Fit-for-purpose accounting

- Transparent, prudent and complete presentation of assets by **definition of cost** (full cost accounting)
- Accurate presentation of financial position and financial performance due to application of **component approach**
- Obligation to recognise internally generated **intangible assets** ensures transparency and completeness (para. 2b UStG-tool)
- Transparency due to recognition of dismantling costs
- Classification of **leases**
- Fair value (only) with intention to generate return or commercial orientation
- **Non-scheduled depreciation** is displayed in accordance with the imparity principle relevant for HGB financial statements

- Limited comparability and subsequent measurement due to choice btw **cost / revaluation model**
- Option to recognise **heritage assets** (completeness)
- Confined transparency and periodisation of the presentation of financial performance where grants received are not recognised as **special items**

3.2 IPSAS 17: Property, Plant and Equipment

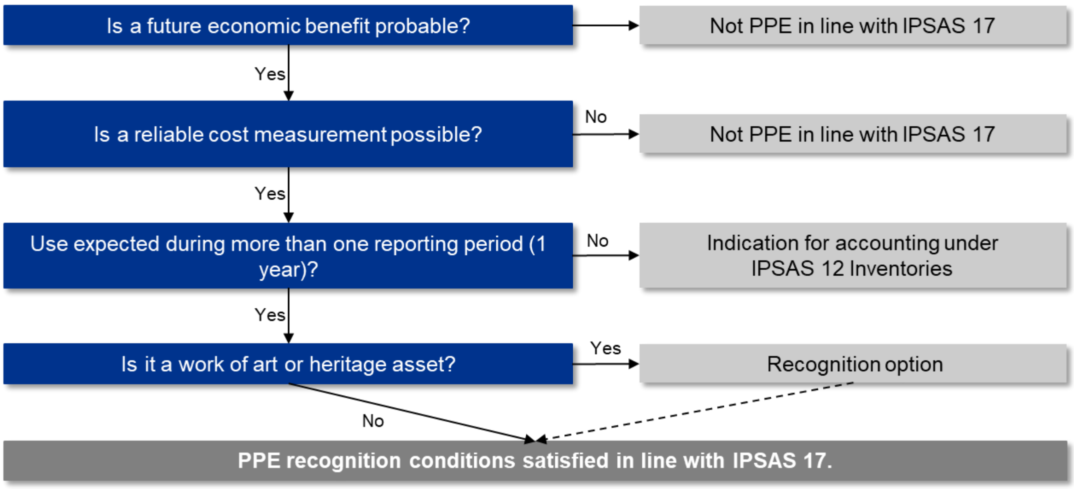
3.2.1 Theoretical background

Scope

In line with IPSAS 17.13, the standard is to be applied to property, plant and equipment. These are defined as tangible items held for use in the production or supply of goods and services, for rental to others or for administrative purposes and which are expected to be used during more than one reporting period (e.g. land, buildings, roads, technical facilities or vehicles).

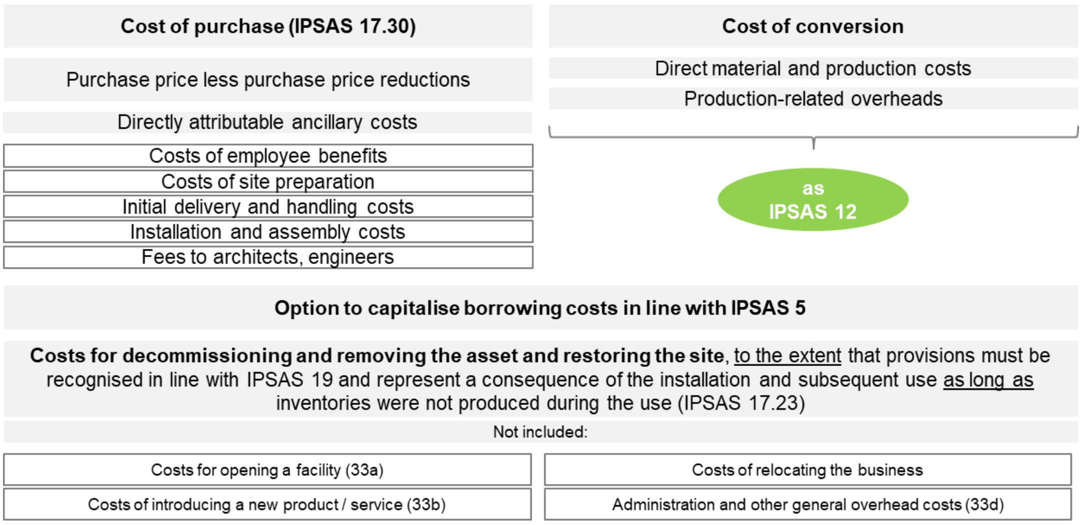
Recognition

The following diagram provides an overview on the recognition criteria in line with IPSAS 17.14 ff.

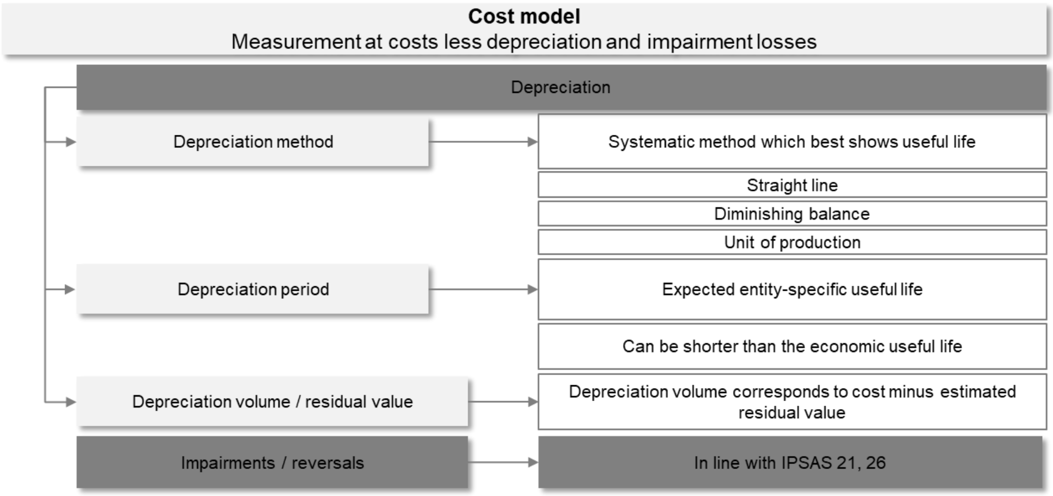


Measurement

In line with IPSAS 17.26, at recognition property, plant and equipment are to be measured at cost. Costs comprise the following:



In the context of subsequent measurement, there is a choice between the cost model (IPSAS 17.43) and the revaluation model (IPSAS 17.44).



In line with the *revaluation model*, an asset is recognised at cost at the time of acquisition. If the fair value can be measured reliably, subsequent measurement takes place using the revalued amount (IPSAS 17.44).

	Fair value
less	accumulated depreciation
less	accumulated impairment losses
=	Revalued amount

Revaluations are to be performed with sufficient frequency to ensure that the carrying amount does not differ materially from the fair value which would result on the reporting date (IPSAS 17.49).

In relation to the subsequent measurement and option exercised in relation to the cost model, account is also to be taken of the component approach according to which significant parts of an item of property, plant and equipment (depending on cost in relation to total cost) are depreciated separately (IPSAS 17.59).

Presentation

Property, plant and equipment are non-current assets in line with IPSAS 1.70 and are within the minimum requirement of IPSAS 1.88 to be recognised under the general heading of property, plant and equipment. It is permitted to present property, plant and equipment classes (e.g. land, operational buildings, roads, machinery, electricity transmission networks, ships, aircraft, weapons systems, furniture and fixtures, office equipment, oil rigs, bearer plants).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	For special property, plant and equipment, especially for investment property and also for biological assets, IPSAS demands further specific requirements (cf. IPSAS 16 and IPSAS 27)	In line with Section 246 (1) HGB, all assets are to be reported in the statement of assets and liabilities. Particularly for investment property, but also for biological assets, HGB has no further specific requirements.
Recognition		
Heritage assets	Recognition option for heritage assets (IPSAS 17.9)	Recognition obligation for heritage assets (Principle of completeness, Section 246 (1) sentence 1 HGB)
Special items / investment grants	No regulation	Option for reduction of cost or recognition under liabilities as special items, if net cash with specific reference to a tangible fixed asset is received which does not need to be paid back or only under certain conditions.
Measurement		
Cost:		
Cost for dismantling / removal	Recognition requirement of dismantling / removal costs (IPSAS 17.30(c)).	Recognition prohibition for dismantling / removal costs; allocation of expenses and thus a corresponding collection of the amount reserved over the obligation period
Cost	Recognition requirement of appropriate costs - for social benefits, - for voluntary social benefits, - for company pensions (IPSAS 17.31(a))	Recognition option of appropriate expenses for - social security costs - voluntary social benefits - occupational pensions (Section 255 (2) sentence 3 HGB) The state of Hesse does not exercise this option.
	Recognition prohibition: administration and other general overhead costs not related to production (IPSAS 17.33)	Recognition option: General and administrative expenses (Section 255 HGB) The state of Hesse does not exercise this option.
Subsequent measurement	At subsequent measurement choice between cost model and revaluation model (IPSAS 17.42)	Cost model (no option available) (Section 253 (1) sentence 1 HGB)

	IPSAS	HGB
Component approach	Component approach (IPSAS 17.59)	Contains no explicit requirements, but possible in principle; but if items of a tangible fixed asset have the properties of physical exchange, separability and materiality, they are to be recognised separately; inspections and large repairs do not meet these conditions (IDW RH HFA 1.016)
Useful life	Entity-specific useful life (IPSAS 17.13)	General standard useful life; more specific company useful lives permitted
Depreciation methods	Choice between straight-line, diminishing-balance and units-of-production methods (IPSAS 17.78)	Choice between four deprecation methods (straight-line, diminishing-balance, arithmetic-diminishing balance / digital and units-of-production)
Impairment	In line with information in IPSAS 21 and 26. (IPSAS 17.79)	Mandatory only when impairment is expected to be permanent.

Presentation

	Property, plant and equipment is recognised under the line item “Property, plant and equipment”. Further sub-classification is possible (IPSAS 1.70+88, 17.13+52).	Tangible fixed assets are to be recognised separately according to - Land, - Infrastructure assets, natural assets, cultural assets (special public-sector item) - Technical equipment and machinery - Other equipment, operating and office equipment and - Prepayments and assets under construction (Section 266 HGB)

Disclosures in the notes

	More extensive disclosures in the notes than in HGB (IPSAS 17.88-94)	Selected disclosures in the notes

3.2.2 Notable practical insights from implementation

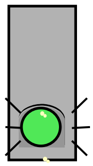
The following insights resulted from implementing the standard:

Scope	The standard with its special requirements for accounting for "other property, plant and equipment" contains explicit requirements; in particular in the scope a delimitation from IPSAS 16 (Investment Property) is necessary.
Heritage assets	The option in respect to accounting for heritage assets (IPSAS 17.9) has been exercised in favour of a complete presentation of heritage assets. However, in the standard there are no specific requirements on measuring heritage assets. In the context of the project, use was made of existing designs, developed on the basis of national commercial accounting principles (GoB) and which allow a robust, objectified presentation of assets.
Component approach	The delimitation of components is treated only in an abstract way in the standard and not on the basis of practical guidance on defined significant items which are to be treated separately. Especially on initial application of IPSAS, the retrospective application of the component approach results in implementation difficulties as the required data basis is not available, especially as in this respect IPSAS 33 does not offer any expedient as transitional provision.
Presentation	In respect to presenting property, plant and equipment, IPSAS 17 does not stipulate an explicit structure for the statement of assets and liabilities. The resulting interpretation options allow presentation in line with national commercial law requirements.

3.2.3 Fit-for-purpose accounting by applying IPSAS?

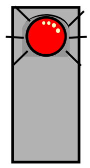
a. Summary of assessment

IPSAS 17 <u>ensures</u> fit-for-purpose accounting (in part.)



Cost	• The measurement of property, plant and equipment with an extensive recognition requirement results in a transparent and complete presentation of assets. • This also applies to the mandatory inclusion of allocable expenses for social benefits, voluntary social benefits or retirement benefits, which at the same time results in an accurate presentation on an accrual basis in the context of determining the result.
Dismantling	• The mandatory recognition of costs for dismantling/removal results in a complete presentation of assets (recognition) and liabilities (dismantling obligation), as firstly recognition of assets is accompanied directly by a corresponding full recognition of the dismantling obligation as a liability and secondly by a distribution of the dismantling costs to the life of the agreement on an accrual basis.
Component approach	• With an adequate separation in key items subject to separate depreciation, decline in value/consumption of resources is presented on an appropriate basis, which results in an accurate presentation of the financial position and performance. • Additional disclosures in the notes on the nature and scope of the component approach which are evident solely in the framework of assessing the depreciation and not in the framework of recognition in the statement of financial position are at the discretion of the reporting entity.

IPSAS 17 does not ensure fit-for-purpose accounting (in part.)



Special items	• The recognition of assets including investment grants received without establishing a liability item in the statement of financial position restricts the transparency related to (unconditional) third-party financing. • The full realisation of gains when receiving the investment grant negatively impacts recognition in line with the accrual principle of the grant over the useful life of the asset.
Heritage assets option	• There is the option to recognise heritage assets for public-sector entities. If the option is not utilised, there can be incomplete recognition of assets. • Only the complete recognition of existing heritage assets allows recognition of all assets, in particular a complete overview of the existing assets and continuation in the subsequent balance sheet.
Option cost model/ revaluation model	• The option for the subsequent measurement of property, plant and equipment at amortised cost or a revalued amount on the reporting date generally negatively influences a targeted comparability of various entities. • In addition – especially in the public sector without an active market – the revaluation model results in measurement uncertainties and scope for judgement which can negative influence objectified financial reporting.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition: Option to recognise heritage assets (as with IPSAS 31)	Recognition: Special items No separate recognition (cf. IPSAS 23)	Measurement: Cost Cost of dismantling / removal (cf. IPSAS 19)	Measurement: Cost Requirement to capitalise appropriate costs (cf. IPSAS 12, 31)
Transparency, (appropriate) informational content for users and understandability	Yes	No	No	Yes	Yes
	• Special requirements to account for "other PPE" • In particular separation of investment property within the meaning of IPSAS 16 and biological assets and agricultural produce within the meaning of IPSAS 27	• Incomplete recognition of assets if option to recognise heritage assets is not used	• Third-party financing by recognising assets, including investment grants received, without establishing a liability item in the statement of assets restricts transparency	• Recognition requirement for PPE and mandatory recognition of costs of dismantling / removal results in a complete presentation of assets (consistent assets and liabilities)	• Transparency secured with allocation of expenses to a specific asset
Data quality	n/a	No	No	Yes	Yes
		• Determining the fair value of heritage assets - due to the lack of an active market - challenging and subject to judgement • Acquisition costs generally not available	• Full realisation of gains when receiving the investment grant adversely impacts recognition in line with the accrual principle	• Appropriate measurement by allocation of expenses to a specific asset • Expenses separated on an accrual basis	• Appropriate measurement by allocation of expenses to a specific asset
Comparability	Yes	No	Yes	Yes	Yes
	• Comparability secured with clear regulations	• Option to recognise heritage assets restricts comparability of the financial statements of different entities	• Clear regulation on non-recognition	• Comparability secured with clear regulations	• Comparability secured with clear regulations
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		• Recognition obligation in respect to correct asset recognition desirable • More detailed information on measurement in the BC desirable	• Recognition obligation (incl. relevant regulation) relating to correct asset recognition desirable		
Comments / Information					

Measurement			Presentation	Disclosures in the notes
Cost **Prohibition to capitalise administration and other general overhead costs not related to production** (cf. IPSAS 12, 31)	**Subsequent measurement** **Cost model vs. revaluation model** (cf. IPSAS 31)	**Cost model component approach, useful life, depreciation method**	(cf. IPSAS 1)	**Extended disclosures in the notes**
Yes	Yes	Yes	Yes	Yes
• Consideration of expenses when incurred	• Disclosure which valuation model is used, with more extensive disclosures when using the revaluation model • With use of the cost model, disclosure of the fair value in the notes is recommended	• Application of component approach becomes evident when determining depreciation (but not when recognising PPE in the statement of financial position)	• No strict requirement for a structure relating to the statement of financial position, for this reason recognition of relevant items possible	• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
Yes	No	Yes	n/a	n/a
• No allocation problem	• Particularly in the public sector without an active market, measurement uncertainties / judgement when applying the revaluation model / determining the fair value for the notes	• Appropriate presentation of the value / consumption of resources in the context of depreciation by differentiating key items		• No additional determination of information required for the disclosures in the notes
Yes	No	No	No	Yes
• Comparability secured with clear regulations	• Restricted comparability due to choice between cost model or revaluation model • Only limited restoration of comparability by recommended disclosures of fair value in the notes	• In general uniform regulation • Judgement relating to the allocation of the items • Additional disclosures relating to itemised recognition in the judgement of the reporting entity	• Lack of binding structure can adversely impact the comparability of financial statements of reporting entities	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
	• Mandatory application of the cost model, possible with disclosures in the notes on the fair value as additional information (if active market is available) recommended • Due to public-sector assets, revaluation model not recommended because there is often no active market for PPE and thus in certain cases no value can be determined. (Note: In the private sector the new valuation model is generally also not used.)	• Further explanations, e.g. in the BC desirable		

3.3 IPSAS 16: Investment Property

3.3.1 Theoretical background

Scope

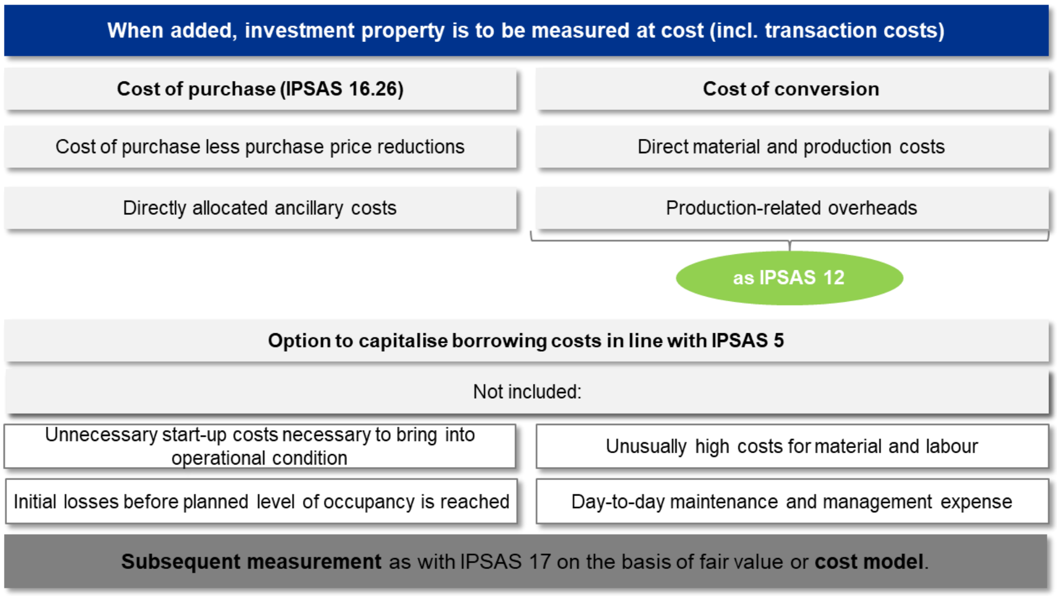
In accordance with IPSAS 16.7, the standard is to be applied to investment property. This is defined as property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes or sale in the ordinary course of operations.

Recognition

In line with IPSAS 16.20 ff., investment property is recognised as an asset when future economic benefits are probable and the cost or fair value can be measured reliably.

Measurement

When added, investment property is to be measured at cost (incl. transaction costs) which are comprised as follows:



Subsequent measurement is similar to IPSAS 17 (cf. Chapter 4.3.2), i.e. there is a choice between the fair value model and the cost model (cf. IPSAS 16.39). The choice of the fair value model applies to all investment property (IPSAS 16.42). Fair value is measured at each reporting date. If the fair value cannot be measured reliably, then the cost model is to be applied (IPSAS 16.42, IPSAS 16.62).

The fair value is the price at which the property could be exchanged between knowledgeable, willing, independent parties in an arm's length transaction on the reporting date (IPSAS 16.45, IPSAS 16.47, IPSAS 16.53). IPSAS 16 contains a level concept to determine fair value:

Level 1: Estimate on the basis of current prices in an active market for similar property in the same location and condition (IPSAS 16.54).

Level 2: As developed properties are generally not homogeneous, when making the assessment the entity must include differences in the nature and condition or location (IPSAS 16.55(a)).

Level 3: If there is no active market, then the prices of similar properties in less active markets can be used as comparative benchmark and adjusted for any changes in economic conditions (IPSAS 16.55(b)).

Level 4: If this does not result in a fair value, then the discounted cash flow method[28] (DCF) or the residual value method are to be used as alternative methods (IPSAS 16.55.(c)). DCF models are based on the same general idea as the income model. The incoming payment surpluses to be discounted are shown in the following calculation:

	Expected basic net rent
–	Loss of rent risk
–	Non-allocable operating costs
–	Return on land value
–	Administrative expenses
–	Maintenance expenses
=	Income payment surplus

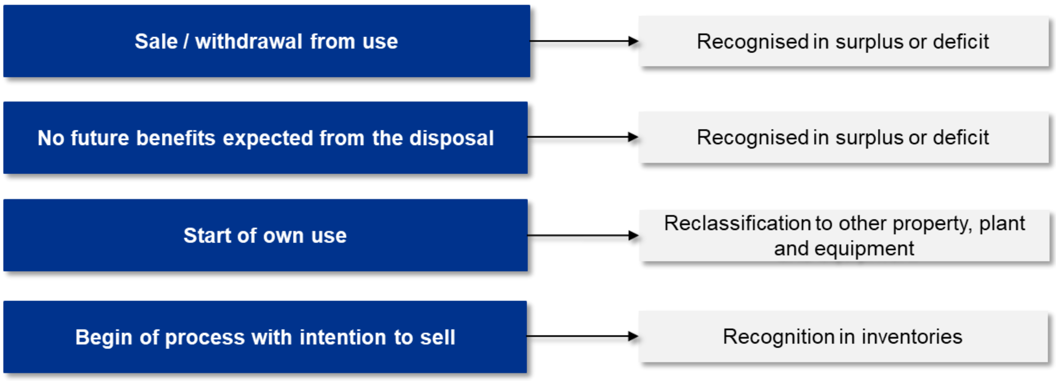
If the application of the above methods results in different conclusions about the fair value, the fair value of the property to be applied is that which presents the most reliable estimate of fair value within a range of reasonable estimates (IPSAS 16.56).

When choosing the cost model, IPSAS 17 applies similarly for investment property (IPSAS 16.65 in conj. with IPSAS 17.13).

In respect to component approach, depreciation volume, useful life, depreciation method and impairment, please refer to Sub-chapter 4.3.2 on IPSAS 17 property, plant and equipment.

Derecognition

If an asset no longer satisfies the investment property criteria, it is to be shown in the statement of financial performance and statement of assets and liabilities as follows (IPSAS 16.77 ff.):



Presentation

Investment property are non-current assets in line with IPSAS 1.70 and as a minimum requirement are to be recognised separately within the meaning of IPSAS 1.88.

If the cost option model is used in subsequent measurement, in line with IPSAS 16.41 it is mandatory to make disclosures in the notes on the fair value to be determined.

[28] DCF model by discounting all future payment surpluses resulting from the property to the measurement date.

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
	Investment property is to be recognised as an asset when the recognition requirements in line with IPSAS 16.20 ff. are satisfied	In line with Section 246 (1) HGB, all assets are to be reported in the statement of assets and liabilities. HGB does not differentiate between properties in respect to their purpose, of whether there is intention to generate return.
Special items	Cf. IPSAS 17	
Recognition and Measurement		
Cost model: ***Dismantling / removal cost*** ***Expenses social benefits, benefits*** ***Administration / other overhead costs***	Cf. IPSAS 17	
Subsequent measurement: Option cost model and revaluation model	Cf. IPSAS 17	
Subsequent measurement cost model: ***Component approach*** ***Useful life*** ***Depreciation methods*** ***Impairment***	Cf. IPSAS 17	
Cost model: **Depreciation volume**	Cost minus estimated residual value as long as the residual value is significant (IPSAS 16.65 in conj. with 17.13, .69)	Full cost less residual value if material (pro memoria value EUR 1) (Section 253 (3) sentence 1 and 2 HGB)
Presentation		
	Investment property is recognised under its own item “Investment Property” (IPSAS 1.88)	Investment property is reported under land – as are other properties
Disclosures in the notes		
	More extensive disclosures in the notes than in line with HGB (IPSAS 16.85 ff.); Requirement to determine the fair value as disclosure in the notes, if the cost model option was exercised for subsequent measurement (IPSAS 16.41)	Selected disclosures in the notes on tangible fixed assets

3.3.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Scope	The existence of a separate standard to recognise investment property requires an intensive engagement with the aim of the reporting entity to monitor the land and buildings it holds. In the course of implementation, no IPSAS 16 application cases were identified in the state of Hesse, as properties are held primarily for thematic objectives and not to generate value increases or rental income.
Component approach	In applying IPSAS 16 – similar to IPSAS 17 – there would be challenges in the retrospective application of the component approach (for more information refer to Section 4.3.2: *IPSAS 17: Property, Plant and Equipment*).
Disclosures in the notes	Disclosing the fair values in the notes necessary in the application of the cost model for return properties within the meaning of IPSAS 16 can – depending on the extent of the impacted property portfolio – in individual cases result in extensive work, especially as the relevant valuations must be obtained for each reporting date.

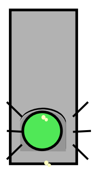
3.3.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

In many places, the requirements of IPSAS 16 correspond with those in IPSAS 17 Property, Plant and Equipment. The positive assessments in relation to IPSAS 17 Property, Plant and Equipment in relation to the fitness for purpose of the definition of cost, recognition of dismantling costs and the component approach can thus be transferred to IPSAS 16. Furthermore, the negative assessment in relation to the fitness for purpose of the requirements on dealing with special items can be endorsed.

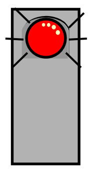
IPSAS 16 <u>ensures</u> fit-for-purpose accounting (in part.)

Presentation	• The separate accounting provisions resulting from the delimited recognition of investment property in the statement of financial position contributes to increased transparency in respect to the purposes pursued in the public sector in respect to the property portfolio.
Disclosures in the notes	• The reporting entities are required to cope explicitly with the objective pursued in the acquisition/holding of land and properties and – especially in cases where the delimitation from property, plant and equipment and inventories is difficult – to determine and publish classification criteria. This strengthens the informational function of the financial statements for the users. • For the presentation of fair value, the mandatory disclosure of the fair value for profit-oriented investment property when applying the cost model represents an appropriate supplement in acquisition terms.



IPSAS 16 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Option cost model/ FV model	• Choosing between the cost model and fair value model for subsequent measurement generally results in a restriction of the targeted comparability of financial statements of different entities. The mandatory disclosure of a fair value in the notes restores this only to a limited extent, as the restriction remains in the case of an isolated view of the statement of financial position.



b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition Cf. IPSAS 17 on special items	Measurement Cf. IPSAS 17 on the definition of cost, recognition of dismantling costs and item recognition requirements
Transparency, (appropriate) informational content for users and understandability	Yes		
	• Existence of a separate standard requires intensive engagement with the intention of holding land and buildings		
Data quality	n/a		
Comparability	Yes		
	• Comparability secured with clear regulations		
Summary	**IPSAS offers fit-for-purpose accounting**		
Conclusion			
Comments / Information	• No application case of IPSAS 16 in the state of Hesse. In this context, and taking account of the fact that in many places the regulations of IPSAS 16 coincide with those of IPSAS 17 Property, Plant and Equipment, public sector entities could waive a separate IPSAS 16.		

Measurement	Presentation	Disclosures in the notes
Subsequent measurement Cost model vs. fair value model	**Separate recognition of investment property**	**Extended disclosures in the notes**
Yes	Yes	Yes
• With use of the cost models, disclosure of fair value in the notes	• Separate recognition of investment property increases transparency	• Specification and disclosure of classification criteria secure transparency and strengthens the information function
Yes	n/a	n/a
• Market values of properties can generally be clearly determined • However, determining the parameters of rent potential / rent selection for subsequent measurement is subject to judgement		
No	Yes	Yes
• Restricted comparability due to choice between cost and fair value model • Only limited restoration of comparability by disclosures of fair value in the notes	• Comparability secured with clear regulations	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**

3.4 IPSAS 13: Leases

3.4.1 Theoretical background

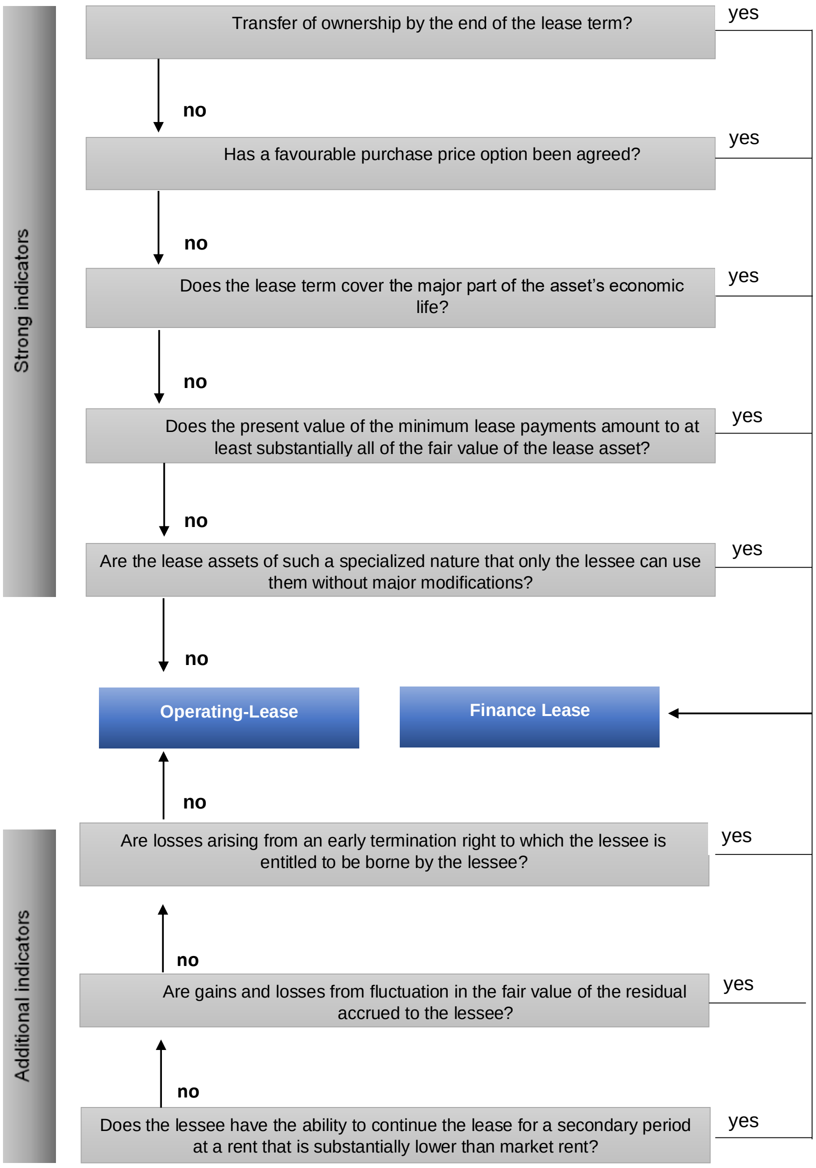
Scope

In line with IPSAS 13.2, the standard applies for accounting for leases. A lease is defined as an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time (IPSAS 13.8) (e.g. leased building, leased official car or leased IT).

Recognition

In line with IPSAS 13, at initial recognition a lease has to be classified as finance lease or operating lease on the basis of the regulations in force at the time the lease is concluded. Decisive for the classification of leases is the economic contents of the transaction; it is based on the assessment of the extent to which risks and rewards related to ownership of a leased asset lie with the lessor or lessee. In line with IPSAS 13.13, a lease is classified as a finance leave if it transfers substantially all the risks and rewards incidental to ownership. It the lease does not transfer substantially all the risks and rewards incidental to ownership, it is classified as an operating lease.

The following diagram provides an overview about indicators for the existence of a finance lease in line with IPSAS 13.15 f.

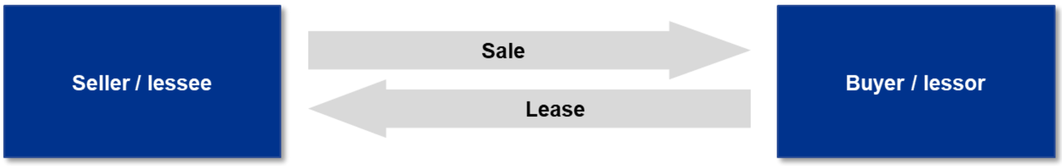


Measurement

Finance leases and operating leases are accounted for at the lessor and lessee as follows:

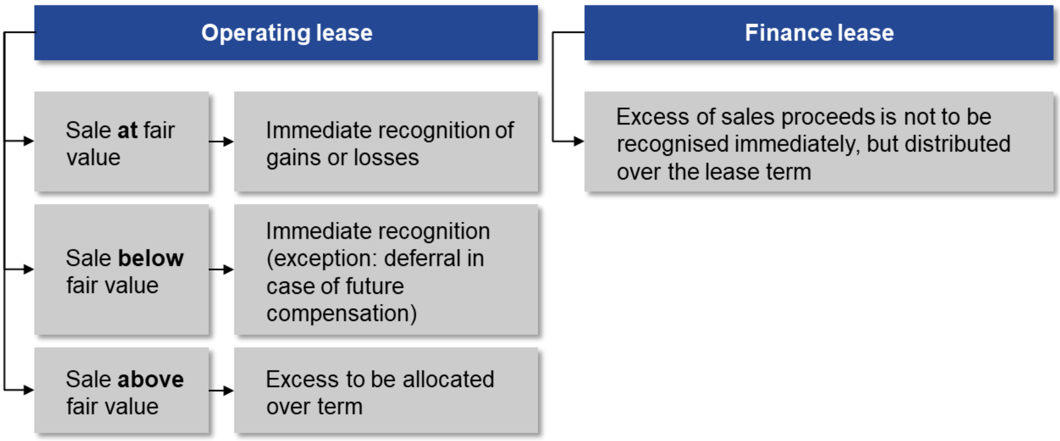
	Finance leases	Operating leases
Lessee	• The leased asset is to be recognised as **asset** at the lower of fair value and present value of the minimum lease payments and be written off over the shorter of the lease term or the useful life • A **liability** against the lessor at the same level is to be recognised • Allocation of lease payments into a **repayment of principal and interest part**	• Lease payments are to be recognised as an **expense** • The lease expense is to be distributed equally over the entire lease term • Exception: demonstration of another economic life
Lessor	• Derecognition of asset • Recognition of a receivable equal to the net investment value (present value of the MLP less a non-guaranteed residual value) • Allocation of lease payments into capital repayments and finance income	• Recognition of the leased asset in line with standard methods • Depreciation over the useful life • Recognition of lease payments as revenue

A sale and leaseback transaction involves the sale of an asset and leasing back the same asset.



In legal terms, there is a combination of two agreements, the purchase agreement and the lease contract. The lease is recognised in line with the requirements stated in IPSAS 13. Accounting for sale and leaseback transaction is shown below (IPSAS 13.70 ff.).

- Accounting depends on whether the **leaseback transaction substantiates an operating or finance lease**
- A gain or loss from the sale transaction is to be recognised as follows:



Presentation

Lessees recognise assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position (IPSAS 13.28). Lease payments from an operating lease are recognised as an expense by the lessee on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the user's benefit (IPSAS 13.42).

In a finance lease, after derecognising the asset, the lessor recognises a receivable from the lessee. In an operating lease, the lessor continues to recognise the corresponding asset in its balance sheet.

Outlook IFRS 16 (IPSASB Exposure Draft 75, Leases)

The basis for IPSAS 13 is IAS 17 which had been applied by the private sector. For financial years beginning on or after 1 January 2019, IFRS 16 is already applied for accounting for leases in line with international accounting standards for the private sector. The new regulations of accounting for leases are expected to be introduced in IPSAS in the medium term and are currently being discussed on the basis of IPSASB Exposure Draft 75, Leases.

In line with IFRS 16, for the lessee there is no classification of the lease into a finance lease and operating lease. In general, leases which meet the leasing definition of IFRS 16 are recognised on the balance sheet of the lessee as right-of-use assets and lease liability. Subsequent measurement is comparable with the current requirements of IPSAS 13 in terms of finance leases. In line with Exposure Draft 75, in the new standard there is an option not to recognise as leases short-term leases (leases with a term of less than twelve months without purchase option) or low-value leases. If the option is used, lease payments are recognised as expenses in line with IPSAS 13 in terms of existing operating leases.

	IPSAS	HGB
Classification		
Classification and allocation to lessee / lessor	Classification of leases into finance leases and operating leases (cf. IPSAS 13.8 in conj. with 13.13)	In line with 246 (1) HGB all, assets, liabilities, expenses and income are to be shown in the annual financial statements.
	Classification as finance lease and allocation to the lessee if substantially all risks and rewards incidental to ownership are transferred (IPSAS 13.13. ff.). Indicators: - Lease transfers ownership of the asset to the lessee by the end of the lease term. - Lessee has the option to purchase the asset at a favourable price at the end of the term. - Lease term is the major part of the economic life of the asset. - Present value of the minimum lease payments amounts to substantially the fair value of the asset. - Due to its specialized nature, asset can be used only by the lessee. - Losses associated from the lessee's cancellation right are borne by the lessee. - Gains and losses from fluctuations in the residual value are to be allocated to the lessee. - Lessee has the right to continue the lease at a rent which is substantially lower than market rent. With specialised leases, the asset is always allocated to the lessee.	Differentiation between full and partly amortisation leases depending on whether the lessee covers at least cost and all incidental expenses, including the financing costs of the lessor with the lease payment to be made in the basic lease term. Allocation to lessee or lessor takes place on the basis of the relation between the basic rental period and the normal commercial useful life of the asset, taking account of further specific contractual features (purchase option, extension options). (*when applying* the leasing decrees *of the Federal Ministry of Finance)* With special leasing, the asset is always allocated to the lessee. Generally more infrequent accounting of the leasing asset at the lessee than is the case with IPSAS.
	Classification as operating lease and allocation to the lessor if not all substantial risks and rewards incidental to ownership are transferred.	

	IPSAS	HGB
Recognition and measurement		
Finance lease accounting (recognition at lessee)	**Lessee:** - The leased asset is to be recognised as asset at the lower of fair value and present value of the minimum lease payments and to be depreciated over the shorter of the lease term or the useful life - A liability against the lessor at the same level as the asset is to be recognised (IPSAS 13.28) - Allocation of lease payments into a repayment of principal and interest part. **Lessor:** - Derecognition of asset. - Recognition of a receivable at the level of the net investment value (present value of the MLP less a non-guaranteed residual value). (IPSAS 13.48) - Allocation of lease payments into capital repayments and finance income.	**Lessee:** - The leasing asset is to be recognised as an asset at cost, i.e. present value of the lease payment plus incidental expenses and financing costs and depreciated over the commercial useful life (Section 253 (1) sentence 1 HGB) - A liability to the lessor at the same level is to be recognised (Section 253 (1) sentence 2 HGB). - Allocation of lease payments into a repayment of principal and interest part. **Lessor:** - Derecognition of asset. - Recognition of a receivable at the level of the discounted future lease payments Allocation of lease payments into capital repayments and finance income.
Sale and leaseback transactions	Accounting is aligned to whether the leaseback transaction substantiates a financing lease or an operating lease (cf. IPSAS 13.70)	Accounting according to whether allocation of the asset to lessee or lessor.
Gain or loss from sale and leaseback transactions with operating leases	- Sale at fair value results in immediate recognition in surplus of deficit - Sale below fair value results in immediate recognition (exception: Deferral with subsequent compensation). - With a sale above fair value, the excess is recognised over the term. (cf. IPSAS 13.73 ff.)	- Sale at fair value: Immediate realization of the disposal gain or loss - Disposal price > fair value of the asset (“excessive purchase price”) and transfer of economic ownership -> profit realisation not permitted; the amount of the agreed purchase price by which the market price exceeds the asset is an implicit loan of the lessor and thus liability of the lessee - for this reason cannot be recognised directly in income - If the lease asset is allocated to the lessee, profit realisation is not permitted under commercial law
Gain or loss from sale and leaseback transactions with finance lease:	Sales gain is not recognised immediately, by distributed over the term (cf. IPSAS 13.71 ff.)	If the beneficial ownership remains at the lessee, there is no profit realisation.

	IPSAS	HGB
Disclosures in the notes		
	Extensive disclosures in the notes	Rental and lease liabilities are reported in the notes according to term under other financial obligations (Section 285 (1) HGB) All other financial obligations (e.g. rental and lease liabilities from continuing obligations) are to be reported in the notes (Section 285 (3a) HGB)

3.4.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

General

The separate standard for accounting for leases contains understandable requirements for the treatment of relevant items from the perspective of both the lessee and also the lessor. In addition, specific requirements for special issues (especially sale and leaseback) are included which are helpful in application.

Classification of leases

On the basis of the criteria for classifying leases in the standard, there can be a classification of leases as finance or operating leases on the basis of objectifiable (leasing) data. However, the application of the standard has shown that the comprehensive data it requires – as a result of providing and inspecting all relevant documents – can result in significant work. This relates primarily to a large number of individual agreements. Furthermore, in the area of property leasing the fair values to be used for the classification were not directly available in all cases and required additional calculation work.

Particularly when there is a high number of leases, supporting use of tool solutions for structuring information, verifiable decision making and documentation would be of assistance.

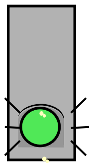
Interest rates

In the context of classification and measurement, the standard provides theoretical requirements in relation to the interest rates required for calculating the present values of the minimum leasing payments, but offers practical information only to a limited extent. Relevant for the practical implementation was access on the interest rates used in reaching the internal decision (especially in economic efficiency analysis).

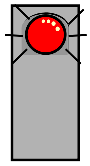
3.4.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 13 ensures fit-for-purpose accounting (in part.)

Classification of leases in relation to the methodology used	• As a result of the economic contents of a lease, the standard generally follows the economic assessment provided for and enshrined in international accounting. However, at the same time, as a result of specifying indicators for classification, a model is also provided which promotes a structured and thus transparent decision-making process. • The disclosures required in the notes on significant – and for the classification decisive – content of contracts also increase the verifiability of the accounting decision for the users of the financial statements.	
Measurement of finance leases	• For measuring finance leases, contractually agreed lease payments and fair value are used. In many application cases in the public sector, the latter is available or can be determined on the basis of an active market, expert assessments or on the basis of profitability assessments. The input data requirement for the measures can thus be determined on an objectified basis – possibly with the exception of restrictions in relation to the interest rate. • Furthermore, the requirement to measure assets from finance leases at the lower of fair value and present value of the minimum lease payments prevents excessive value recognition on the basis of possible contractual design (especially in relation to the lease payments).	
Allocation to the correct period	• The standard prescribes a strict allocation of expenses and revenue in relation to leases to the correct period. This is reflected in general requirements for accounting at the lessor and lessee; this relates specifically to dealing with revenue and losses from sale and leaseback transactions.	

IPSAS 13 does not ensure fit-for-purpose accounting (in part.)



Classification of leases in respect to the comparability of financial statements

- The indicators included in the standard – coupled with the corresponding disclosures in the notes – allow transparency for classification decisions which is to be highlighted positively. At the same time, the fundamental differentiation into operating leases and finance leases and their different recognition in the statement of financial position and the statement of profit or loss, as a result of judgement and contract design, results in restricted comparability of the financial statements of different entities. In addition, off-balance accounting of operating leases restricts transparency.
- With the planned alignment of lease accounting to IFRS 16, it is anticipated that transparency in respect to recognising leases will be increased as – at least from a lessee perspective – there is no differentiation between operating and finance leases and recognition takes places as soon as the definition for a lease has been satisfied. At the same time, the way in which options are handled, such as for low-value leases, can still result in incomplete recognition of leases. What is more, the new recognition does not exclude the possibility that – under certain circumstances - a leasing asset is not recognised either at the lessor or at the lessee. In a revised standard it is anticipated that judgements will remain, which can negatively impact comparability.

Interest rates

- Specifying interest rates is highly dependent on judgement as the standard provides only few specifications for their calculation. This generally negatively impacts the targeted comparability of the financial statements of different entities.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition Allocation to lessee / lessor	Measurement Finance lease
Transparency, (appropriate) informational content for users and understandability	Yes	No	Yes
	• Separate regulations on the complex topic of leasing sensible	• Indicators for classifying leases as finance or operating leases allows structured classification • Off-balance accounting of operating leases restricts transparency	• Measurement of assets from finance leases at the lower of fair and present value of the minimum lease payments prevents excessive value recognition on the basis of possible contractual design
Data quality	n/a	Yes	Yes
		• Classifying leases as finance or operating leases on the basis of objectifiable (leasing) data	• Measuring leases as finance or operating leases on the basis of objectifiable (leasing) data • Fair value is generally available or can be determined on the basis of an active market, expert assessments or on the basis of profitability assessments
Comparability	Yes	No	No
	• Comparability secured with clear regulations	• Comparability in relation to the classification of leases into operating leases and finance leases can be restricted as a result of judgement and contract design	• Specifying interest rates when determining the present values of minimum lease payments is dependent on judgement as the standard provides only few specifications for their calculation
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion			
Comments / Information	• Planned alignment of lease accounting to IFRS 16		

Measurement		Presentation	Disclosures in the notes
Operating lease	**Gain or loss (from sale and leaseback transactions)**	**No difference**	**Extended disclosures in the notes**
n/a	Yes		Yes
	• Strict allocation of expenses and revenue in relation to leases to the correct period		• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
Yes	Yes		n/a
• Expenses determined and recognised on the basis of contractually stipulated lease payments	• Cf. Transparency + (appropriate) informational content for users and understandability		• No additional determination of information required for the disclosures in the notes • BUT: Different preparation necessary
Yes	Yes		Yes
• Comparability secured with clear regulations	• Comparability secured with clear regulations		• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**

3.5 IPSAS 31: Intangible Assets

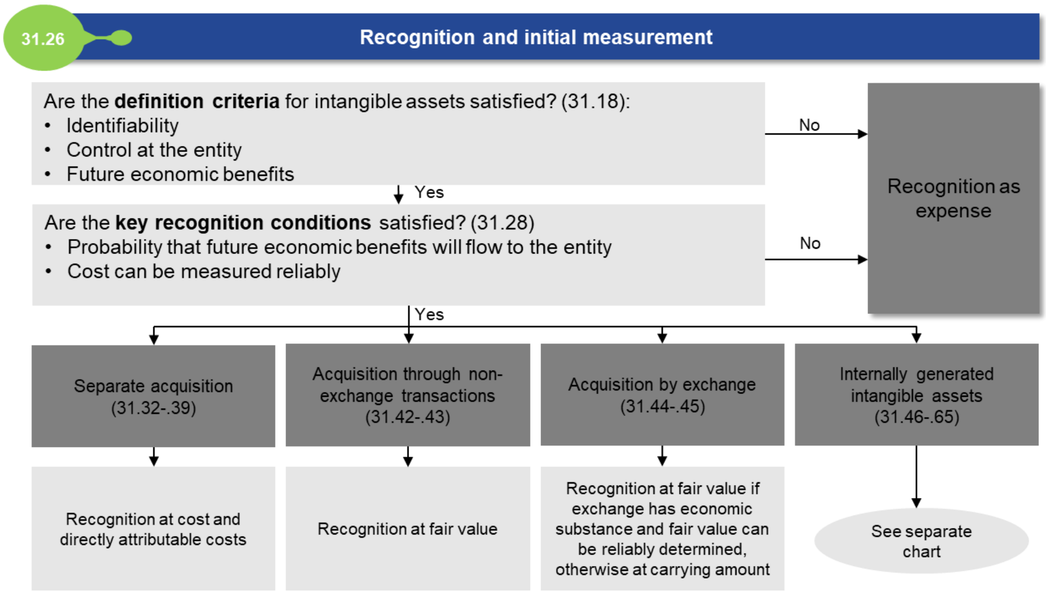
3.5.1 Theoretical background

Scope

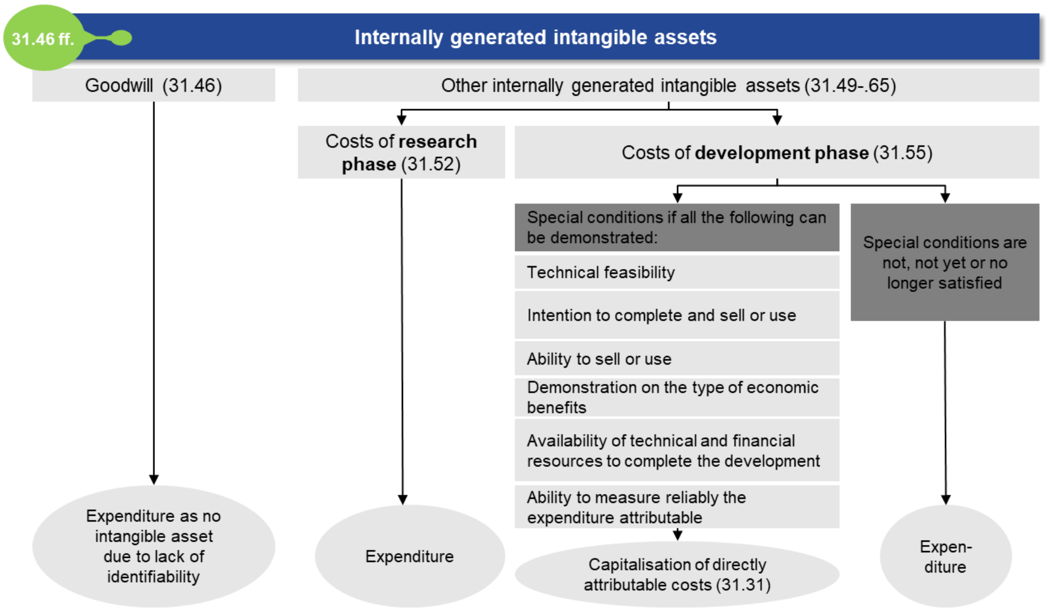
In line with IPSAS 31.2, the standard is to be applied to intangible assets. In line with IPSAS 31.16, these are defined as identifiable, non-monetary assets without physical substance (e.g. computer software, patents, copy-rights, film material or fishing licenses).

Recognition and measurement

The following diagram provides an overview on the recognition requirements and measurement at recognition of intangible assets:

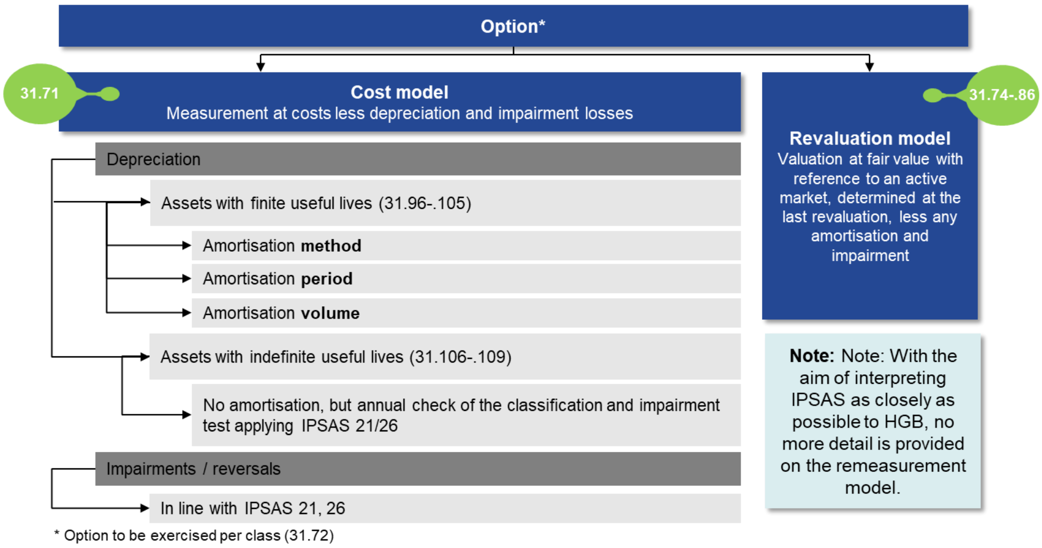


With respect to internally generated intangible assets, recognition is in line with IPSAS 31.46 ff.:



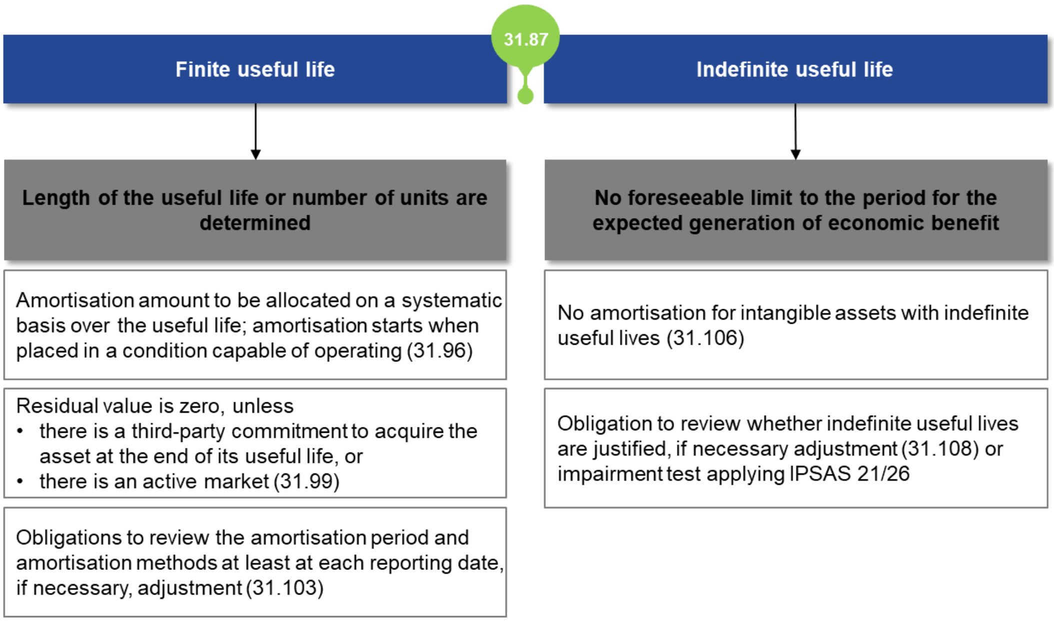
Internally generated brands, mastheads, publishing titles, lists of users and items similar in substance may not be recognised as intangible assets (IPSAS 31.61).

In the context of the subsequent measurement, there is a choice per class between the cost model (IPSAS 31.71) and the revaluation model (IPSAS 31.74-86).



In the case of impairments, IPSAS 21 (non-cash generating intangible assets) and IPSAS 26 (cash generating) are to be applied (cf. Chapter D.4).

When amortising an intangible asset, a differentiation is to be made between a useful life which is finite or indefinite:



Derecognition

When derecognising intangible assets, the gain or loss from disposal is to be recognised in surplus or deficit when they are derecognised.

Presentation

In line with IPSAS 1.70, intangible assets are non-current assets and as a minimum requirement in line with IPSAS 1.88 are to be recognised separately in the statement of assets and liabilities. It is permitted to present intangible assets by classes. In line with IPSAS 31.72,118, a class of intangible assets is a grouping of assets of a similar nature and unit in an entity's operations which are presented as a single item in the financial statements for the purpose of reporting; e.g. mastheads, publishing titles computer software, licenses or copyrights.

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
	-	-
Recognition		
	Recognition obligation for internally generated intangible assets (IPSAS 31.28); recognition of development costs when they meet the criteria under with IPSAS 31.55	Recognition option for internally generated intangible assets (cf. Section 248 (2) HGB) and for development costs (Section 255 (2a) HGB)
	Recognition obligation for intangible assets for non-exchange transactions (IPSAS 31.42).	Recognition prohibition of intangible assets from transactions without consideration. With contributions, also possible to recognise in equity at prudently estimated or otherwise normal cost.
	Recognition option for intangible heritage assets (IPSAS 31.11).	No special regulation; recognition obligation for cash and non-cash acquisition and option with internally generated intangible cultural assets (Section 246 (1); Section 248 (2) HGB)
Measurement		
	Recognition option for intangible heritage assets (IPSAS 31.14)	Recognition at cost (Section 253 (1) sentence 1 HGB)
	Recognition of non-exchange transactions on the basis of fair value (IPSAS 31.43).	If recognition (cf. above), recognition at prudently estimated or otherwise normal cost.
Cost: **Subsequent measurement**	Option for subsequent measurement for cost model or revaluation model (IPSAS 31.71).	Cost model (no option) (Section 253 (1) sentence 1 HGB)
Amortisation amount	Cost less estimated residual value (IPSAS 31.96).	Full cost (pro memoria value EUR 1)
Useful life	Individual operational useful life; with intangible assets with contractually agreed rights of use, the useful life may not exceed the contractual period (IPSAS 31.96).	Individual operational useful life; with intangible assets with contractually agreed rights of use, the useful life may not exceed the contractual period.
Amortisation methods:	Choice between straight-line method, the diminishing balance method and the units of production method (IPSAS 31.97).	Choice between straight-line method, the diminishing balance method and the units of production method),

Presentation		
	Intangible assets recognised in line with classes (IPSAS 31.118).	Recognition of intangible assets according to: - Purchased concessions, licenses, etc. - Advance payments made
Disclosures in the notes		
	More extensive disclosures than in HGB (IPSAS 31.117 ff.).	Selected disclosures in the notes

3.5.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Recognition of internally generated intangible assets In practical implementation the recognition requirement for internally generated intangible assets has shown that detailed project management with a reliable data basis is essential for appropriate measurement. In addition, the differentiation between research and development is challenging. In this context judgement ist necessary.

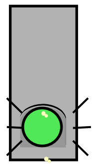
3.5.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

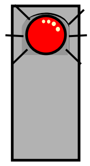
In selected areas, the requirements of IPSAS 31 correspond to those of IPSAS 17 Property, Plant and Equipment. The negative assessment in relation to IPSAS 17 Property, Plant and Equipment in respect to the fitness of purpose of the requirements relating to the option for accounting of **heritage assets** can be applied here.

IPSAS 31 ensures fit-for-purpose accounting (in part.)

Internally generated intangible assets - recognition obligation	• The mandatory recognition of intangible assets in line with IPSAS 31 results in a complete, and thus transparent recognition of assets. Service potential resulting from the development present in the reporting entity and which can be sold, is shown.
Cost	• Similar to IPSAS 17, the extensive recognition requirements of cost achieve a transparent and complete recognition of assets. • This applies in respect to the mandatory inclusion of allocable expenses for social benefits, voluntary social benefits or retirement benefits which result in an accurate calculation of results on an accrual basis.



IPSAS 31 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Option cost model/ revaluation model	• At subsequent measurement, the option for recognising amortised cost or a revaluation on the reporting date generally negatively impacts a targeted comparability of different entities. • Due to the fact that for various intangible assets – especially internally generated ones – it is very difficult to determine a fair value as a result of the lack of an active market, the revaluation model cannot be deployed for reasons of impracticality.	
Internally generated intangible assets – identification	• The identification of research and development activities for mandatory recognition of internally generated assets is subject to judgement and strongly dependent on the quality of internal project management and documentation. Different requirements at the reporting entity and in exercising corresponding judgement can result in negatively impacting the comparability of the financial statements of different entities.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition Recognition obligation for internally generated intangible assets	 Cf. IPSAS 17 on option to recognise heritage assets	Measurement Cost
Transparency, (appropriate) informational content for users and understandability		Yes		Yes
		• Mandatory recognition of internally generated intangible assets results in more complete presentation of assets • Recognition of service potential which can be sold		• Recognition requirements results in complete asset recognition
Data quality		Yes		Yes
		• Identification of research and development activities requires detailed project management and documentation		• Correct measurement by allocation of expenses to a specific asset • Expenses separated on an accrual basis
Comparability		No		Yes
		• In general uniform rules for recognition of internally generated intangible assets • However, separation of research and development activities is subject to judgement		• Comparability secured with clear regulations
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		• Addition / explanations in respect to separation criteria for research and development activities and joint projects desirable		
Comments / Information				

Measurement			Presentation	Disclosures in the notes
Cost **Requirement to capitalise appropriate costs for:** **- social security costs** **- voluntary social benefits** **- retirement benefits** (cf. IPSAS 12, 17)	**Cost** **Prohibition to capitalise administration and other general overhead costs not related to production** (cf. IPSAS 12, 17)	**Subsequent measurement** **Cost model vs. revaluation model** (cf. IPSAS 17)	-	**Extended disclosures in the notes**
Yes	Yes	Yes		Yes
• Transparency secured with allocation of expenses to a specific asset	• Consideration of expenses when incurred	• Disclosure which valuation model is used, with more extensive disclosures when using the revaluation model		• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
Yes	Yes	No		n/a
• Correct measurement by allocation of expenses to a specific asset	• No allocation problem	• Measurement uncertainties/ judgement when applying the revaluation model, as there is no active market for various (especially internally generated) intangible assets		• Additional determination of information for the asset register (separation into internally generated and not internally generated intangible assets) necessary
Yes	Yes	No		Yes
• Comparability secured with clear regulations	• Comparability secured with clear regulations	• Restricted comparability due to choice between cost and revaluation model		• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**		**IPSAS offers fit-for-purpose accounting**
		• Mandatory application of the cost model, possible with disclosures in the notes on the fair value as additional information (if active market is available) recommended • Due to public-sector assets, revaluation model not recommended because there is often no active market for intangible assets and thus in certain cases no value can be determined. (Note: In the private sector the new valuation model is generally also not used.)		

3.6 IPSAS 5: Borrowing Costs

3.6.1 Theoretical background

Scope

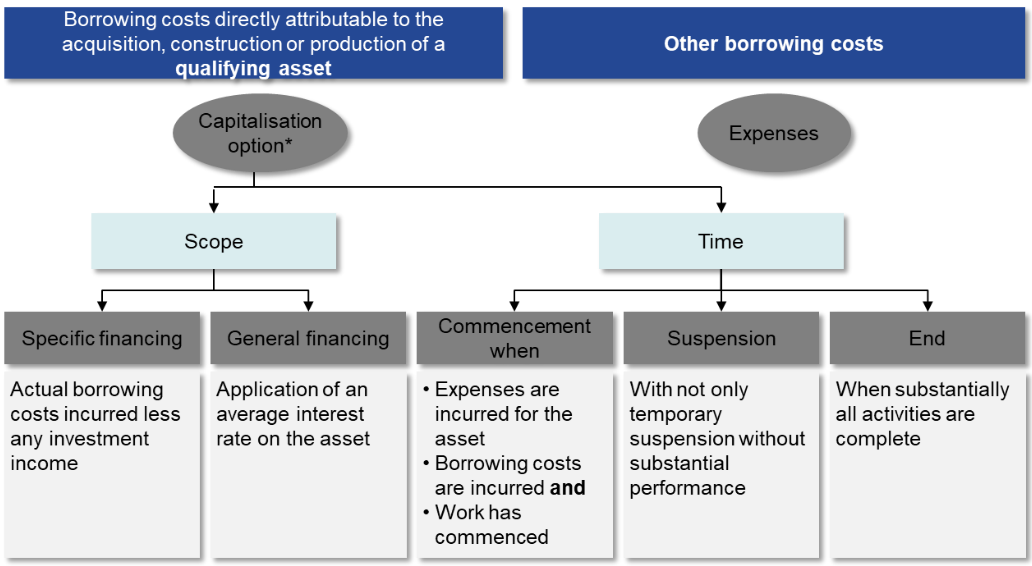
IPSAS 5 prescribes the accounting treatment for borrowing costs (IPSAS 5.1). Borrowing costs are defined as interest and other expenses incurred in connection with the borrowing of funds. These can include interest for overdrafts and current and non-current loans, amortisation on premiums or discounts on borrowing, amortisation on incidental costs incurred in connection with borrowing, finance charges from finance leases or exchange differences from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs (IPSAS 5 f.).

Recognition and measurement

For borrowing costs which can be allocated to a qualifying asset, IPSAS 5 allows a recognition option:

In line with IPSAS 5.13, a qualifying asset is a non-financial asset that necessarily takes a substantial period of time to bring to a condition ready for use or sale (e.g. office buildings, hospitals, infrastructure assets such as roads, bridges, power generation facilities and certain inventories).

Accounting in line with the alternatively permitted options is shown in the following diagram:



*The obligation for capitalising borrowing costs in line with IAS 23 in 2008 has not yet been included in the IPSAS.

Presentation

Using the benchmark method, borrowing costs are recognised as an expense in line with IPSAS 5.14 f. With the alternative treatment, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset and in line with IPSAS 5.18 f. are recognised as an expense in the statement of assets and liabilities.

Differences HGB / IPSAS

There are no relevant differences between HGB and IPSAS.

3.6.2 Notable practical insights from implementation

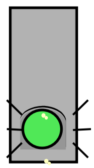
The following insights resulted from implementing the standard:

Recognition option	On the basis of the option in IPSAS 5, it is possible to retain accounting in line with HGB. In the case of the state of Hesse, borrowing costs have not been recognised either in the financial statements in line with commercial law or in the IPSAS financial statements.
Allocation to a specific asset	As borrowing costs cannot generally be allocated to any specific asset for the state of Hesse, there would be no recognition of borrowing costs even in the case of opting for alternative treatment.

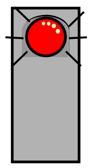
3.6.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 5 ensures fit-for-purpose accounting (in part.)

Alternative treatment	• The option to recognise borrowing costs when applying an alternative treatment by allowing direct allocation of borrowing costs as part of the valuation of the asset promotes a transparent presentation of the costs actually incurred.	

IPSAS 5 does not ensure fit-for-purpose accounting (in part.)

Option: Benchmark method or alternative treatment	• The comparability of financial statements of different entities can be restricted as a result of option of choosing between the benchmark method and the alternative treatment. • Not being able to allocate borrowing costs to specific assets excludes recognition and results in an impact on the current statement of profit or loss.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition No difference
Transparency, (appropriate) informational content for users and understandability		
Data quality		
Comparability		
Summary	IPSAS offers fit-for-purpose accounting	IPSAS offers fit-for-purpose accounting
Conclusion	• Fit-for-purpose accounting, especially because IPSAS schedules the same option as HGB	
Comments / Information		

Measurement	Presentation	Disclosures in the notes
Option: Benchmark or alternative treatments **-** **No difference due to option**	**No difference**	**No difference**
Yes		
• Alternative treatments: Allocation of borrowing costs to a specific asset (= capitalisation), provided allocation is possible, generally results in a more transparent presentation		
n/a		
No		
• The comparability of financial statements of different entities can be adversely impacted as a result of heterogeneous options (benchmark method or alternative treatments)		
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
• In the state of Hessen no case where borrowing costs can be allocated directly to an asset		

3.7 IPSAS 27: Agriculture

3.7.1 Theoretical background

Scope

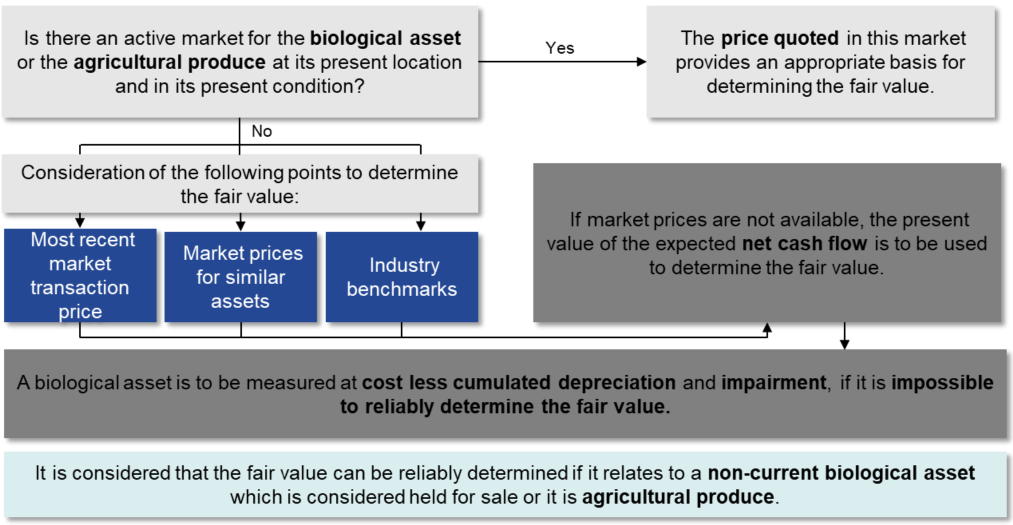
IPSAS 27 applies to biological and agricultural produce until harvest and regulates accounting for a large range of agricultural activities. A biological asset is a living animal or plant, except for not fruit-bearing plants. An agricultural activity takes place if the entity implements the biological transformation or harvest of biological assets for sale, distribution or conversion into agricultural produce or additional biological assets. A biological transformation comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes in a biological asset (cf. IPSAS 27.1 f.).

Recognition and measurement

The following diagram provides an overview on the recognition criteria, the measurement and the recognition of value changes for biological assets and agriculture produce:

	Recognition	Accounting policies	Value changes
Biological assets • Living animals or plants (27.9) (except fruit-bearing plants)	• **Right of disposal** over an asset • Probability of **future economic benefits** or service potential • **Reliable measurement** of the asset	• Measurement at fair value less costs to sell (27.16) Exception: On costs minus accumulated depreciation if the fair value cannot be measured reliably. (27.34)	• Gains and losses on initial recognition or a subsequent change in measurement are included in the surplus of deficit for the period in which they arise. (27.30 -.32)
Agricultural produce: • Products of the biological asset (at harvest) (27.9)		• Measurement at fair value less costs to sell (27.18)	After the harvest, agricultural produce is to be recognised as inventories (in line with IPSAS 12).

Without exception, IPSAS 27 stipulates the recognition of fair value, particularly with the target of presenting the value increase in long-term production processes. The fair value is determined as follows:



In the context of subsequent measurement, in line with the standard biological assets and agriculture produce are to be recognised at each reporting date with the fair value (quoted market price) less costs to sell (IPSAS 27.34).

Ausweis

Recognition takes place within property, plant and equipment which are recognised separately in line with asset classes.

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
	- Condition for control of the asset is that it is probable that future economic benefits or service potential will result. (IPSAS 27.13) - Separate treatment of agricultural activity if this is implemented to generate economic benefits. (IPSAS 27.13) - Biological assets held for the supply of services are not included in IPSAS 27 (scope IPSAS 12 or 17) (IPSAS 27.3)	- In fixed assets all assets are to be recognised which are intended to be used for business operations on a permanent basis. (Section 246 (1) HGB, Section 247 (2) HGB - No separate recognition of biological assets held for providing services.
Measurement		
	Initial measurement - Biological assets and agricultural produce are to be measured at fair value (quoted market price) less costs to sell. IPSAS 27.16 - Exception: If the fair value cannot be (reliably) determined, the asset is to be measured at cost minus accumulated depreciation and impairment. IPSAS 27.34 - As soon as there is the possibility of measuring the fair value, it is to be measured. IPSAS 27.34 Subsequent measurement - At each reporting date, biological assets and agricultural produce are to be measured at fair value (quoted market price) less costs to sell. IPSAS 27.34	Initial measurement - According to general principles measurement of assets is at amortised cost. Subsequent measurement - Measurement at amortised cost, i.e. cost less depreciation or if impairment is expected to be permanent at the lower fair value (Section 253 (3) HGB).

Presentation

	- Recognition takes place within property, plant and equipment which are recognised separately in line with asset classes.	- Tangible fixed assets are to be recognised separately according to - Land, - Infrastructure assets, natural assets, cultural assets, - Technical equipment and machinery - Other equipment, operating and office equipment and - Prepayments and assets under construction

Disclosures in the notes

	The requirements in the notes are more extensive than in HGB (IPSAS 27.38 ff.)	Selected disclosures in the notes

3.7.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Scope

In practical implementation, the definition and identification of items recognised as “agricultural activity to generate economic benefits” in IPSAS 27 requires considerable work at initial application of IPSAS. For this reason, there was intensive discussion on the relevance of the standard for the state of Hesse, even if this ultimately resulted in determining that the state has no significant items to be recognised in line with IPSAS 27.

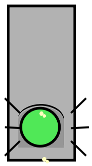
3.7.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 27 <u>ensures</u> fit-for-purpose accounting (in part.)

Fair value measurement

- In the context of the necessary agricultural activity to generate economic benefits, measurement at fair value, which can generally be determined on the basis of the proximity to the sales market and time of sale in a meaningful and objectifiable manner, is to be assessed as a suitable measurement benchmark which maps the financial position and results of the reporting entity completely and in a transparent fashion.
- By not utilising the option in relation to subsequent measurement – in deviation from other standards which relate to asset accounting (IPSAS 16, IPSAS 17, IPSAS 31) – a high level of comparability between reporting entities has been created.



b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition No difference
Transparency, (appropriate) informational content for users and understandability	Yes	
	• Separate standard results in separation of biological assets and agricultural produce from “other PPE” within the meaning of IPSAS 17	
Data quality	n/a	
Comparability	Yes	
	• Comparability secured with clear regulations	
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion	• Classification of the facts under IPSAS 27, as the differences very nuanced	
Comments / Information	• In the state of Hessen, due to materiality not issues within the scope of IPSAS 27.	

Measurement	Presentation	Disclosures in the notes
Measurement at fair value less costs to sell Exception: cost	**No difference**	**Extended disclosures in the notes**
Yes		Yes
• Fair value to be determined in an objectifiable manner on the basis of the proximity to the sales market and time of sale		• Additional disclosures in the notes due to difficulties in delimiting the items sensible (informational gain)
n/a		n/a
		• Additional determination of information required for the disclosures in the notes
Yes		Yes
• Lack of options results in high level of comparability between reporting entities		• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**

3.8 IPSAS 12: Inventories

3.8.1 Theoretical background

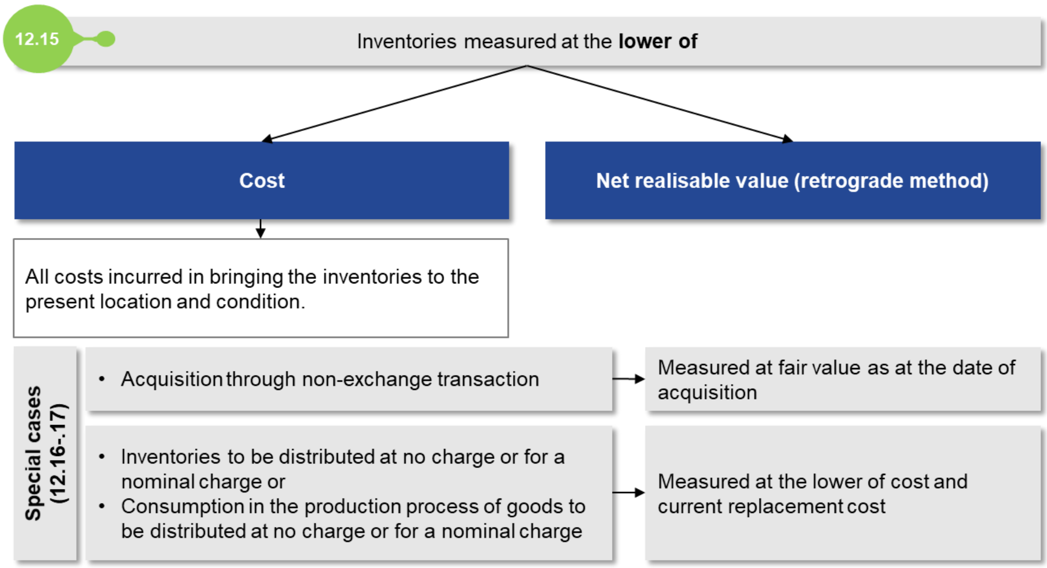
Scope

The standard is to be applied in accounting for inventories (IPSAS 12.2). In line with IPSAS 12.9, this is defined as assets in the form of raw materials, consumables and supplies which are to be consumed in the production process or in the rendering of services held for sale or distribution in the normal course of business or which are in the process of production for sale or distribution (e.g. consumables, energy reserves).

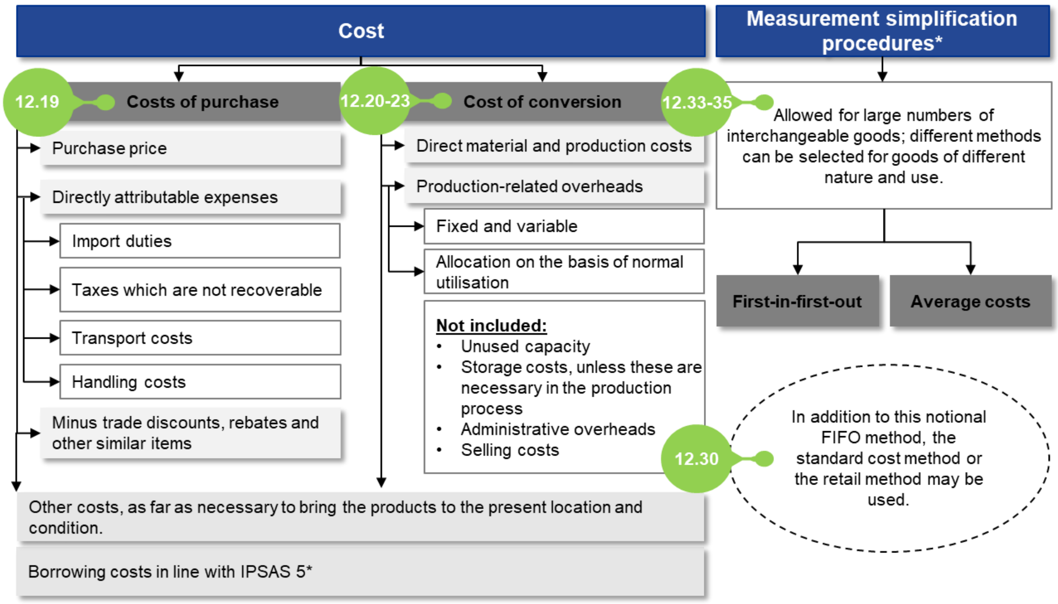
According to IPSAS 12, the following must be recognised, but not measured; inventories of agricultural or forest produce as well as inventories of commodity broker-traders who measure their inventories at fair value less costs to sell.

Recognition and measurement

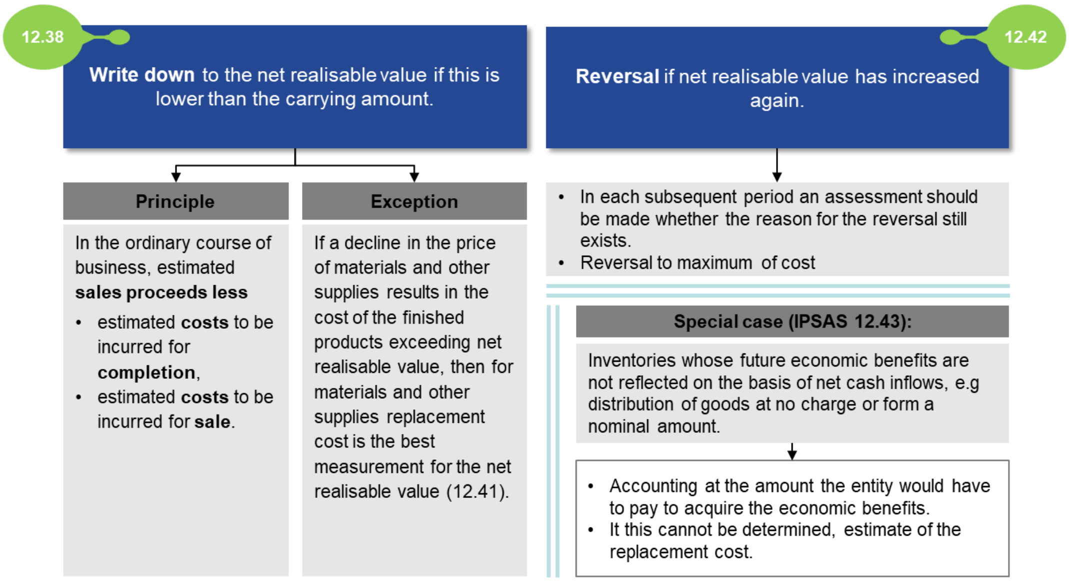
The measurement of inventories is shown in the following diagram:



Inventories are measured on an itemised basis. A convenience is permitted particularly for large qualities of exchangeable goods:



On the reporting date, inventories are measured as follows:



Presentation

IPSAS does not prescribe a specific classification framework. However, a sub-classification of inventories to the following items is regarded as common in line with IPSAS 12.48:

– Merchandise
– Materials
– Work in progress
– Finished goods

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
	Inventories are - materials or supplies to be consumed in the production process. - materials or supplies to be consumed or distributed in the rendering of services. - assets to be consumed or distributed in the rendering of services. - assets in the process of production for sale or distribution. (IPSAS 12.9)	In line with Section 246 (1) HGB, all assets are to be reported in the statement of assets and liabilities. - Inventories within the meaning of HGB are: - Raw materials, consumables and supplies - Unfinished goods and work in progress - Finished goods and merchandise - Advance payments made

	IPSAS	HGB
Recognition and measurement		
Measurement at addition	IPSAS 12.19 – 12.23 Cost (item-based measurement) Acquisition in a non-exchange transaction: Fair value at the date of addition (IPSAS 12.17) Cost includes appropriate expenses for - social benefits - voluntary social benefits - retirement benefits (Required recognition) **Facilitation**: - FIFO method - Weighted average costs - Standard cost method or retail method (IPSAS 12.30-35)	Section 253 HGB Cost (item-based measurement) With acquisition without consideration, recognition at zero possible Cost recognition option of the appropriate expenses - for social benefits - for voluntary social benefits - for retirement benefits The state of Hesse has not exercised this option. (Section 255 HGB) **Facilitation**: - Aggregated measurement at weighted average price (Section 240 (4) HGB in conj. with Section 256 sentence 2 HGB) - Consumption tracking method (Section 256 HGB): FIFO, LIFO - Fixed value method in certain circumstances, especially with raw materials, consumables and supplies with low value changes and subordinate importance (Section 240 (3) in conj. with Section 256 sentence 2 HGB)
Borrowing costs	Cost: Recognition option for borrowing costs (IPSAS 12.26, IPSAS 5)	Cost: Recognition prohibition of borrowing costs. Interest for borrowing used to finance production of an asset may be recognised, provide it relates to the period of production
Subsequent measurement reporting date	IPSAS 12.15 – 12.17 Cost or net realisable value, or in special case, replacement value	Strict principle of lower of cost or market Cost or lower fair value (depending on the type of inventories, replacement cost or sales price minus cost to sell)

	IPSAS	HGB
Presentation		
	Inventories (examples): 1) Merchandise 2) Materials 3) Work-in-progress 4) Finished goods (IPSAS 12.48)	Inventories 1) Raw materials, consumables and sup-plies 2) Work in progress 3) Finished goods and merchandise 4) Advance payments (Section 266 (2), B. Current assets, I. In-ventories HGB)
Disclosures in the notes		
	- Accounting methods applied and fur-thermore extensive disclosures in the notes than for HGB (IPSAS 12.47)	Only accounting policy disclosures

3.8.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

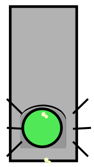
Valuation simplification procedures	On the basis of a large number of valuation simplification procedures allowd by the standard, IPSAS 12 allows accounting for inventories consumption in line with previous practise.

3.8.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

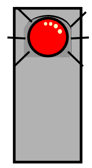
IPSAS 12 <u>ensures</u> fit-for-purpose accounting (in part.)

Valuation simplification procedures	• The standard provides a choice between several valuation simplification procedures. This allows an accurate and transparent presentation of inventory consumption.
Definition of cost	• Measurement of inventories with far reaching recognition results in a transparent and complete presentation of assets. • This also applies to the mandatory inclusion of allocable expenses for social benefits, voluntary social benefits or retirement benefits, which at the same time results in an accurate presentation on an accrual basis in the context of determining the result.



IPSAS 12 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Valuation simplificatio procedures	• Different measurement methods with the relevant option provides the basis for differentiated measurement aligned to the relevant characteristics of the inventories. However, this can result in reduced comparability of financial statements of different entities as the application and selection of suitable measurement convenience methods – within the specification of the standard – is based on the judgement of the reporting entity.



b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition No difference	Measurement Cost Requirement to capitalise appropriate costs for: - social security costs - voluntary social benefits - retirement benefits (cf. IPSAS 17, 31)
Transparency, (appropriate) informational content for users and understandability			Yes • Measurement of inventories with far-reaching recognition results in a transparent and complete presentation of assets
Data quality			Yes • Correct measurement by allocation of expenses to a specific asset
Comparability			Yes • Comparability secured with clear regulations
Summary	IPSAS offers fit-for-purpose accounting	IPSAS offers fit-for-purpose accounting	IPSAS offers fit-for-purpose accounting
Conclusion			
Comments / Information			

Measurement		Presentation	Disclosures in the notes
Cost Prohibition to capitalise administration and other general overhead costs not related to production (cf. IPSAS 17, 31)	**Measurement simplification procedures**	-	**Extended disclosures in the notes**
Yes	Yes		Yes
• Consideration of expenses when incurred	• Measurement simplification procedures allow an accurate and transparent presentation of inventory consumption		• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
Yes	Yes		n/a
• No allocation problem	• Option for measurement simplification procedures provides the basis for differentiated measurement aligned to the relevant characteristics of the inventories		• No additional determination of information required for the disclosures in the notes
Yes	No		Yes
• Comparability secured with clear regulations	• Selection and application of accounting policies is based on the judgement of the reporting entity, which can result in reduced comparability for financial statements of different entities		• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**		**IPSAS offers fit-for-purpose accounting**

3.9 IPSAS 32: Service Concession Agreements: Grantor

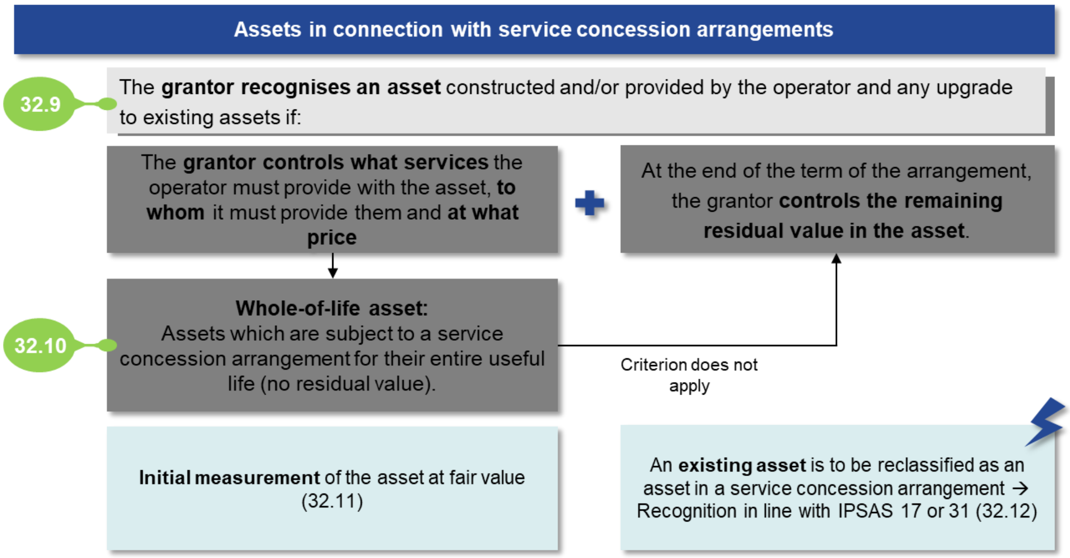
3.9.1 Theoretical background

Scope

IPSAS 32 prescribes the accounting for service concession arrangements by the grantor, a public sector entity. In line with IPSAS 32.8, a service concession arrangement is a binding arrangement between a grantor and an operator, in which the operator uses the asset of the service concession in order to provide services on behalf of the grantor for a specific period of time and the operator is compensated for the services provided (examples for assets are roads, bridges, tunnels, hospitals, airports, etc.).

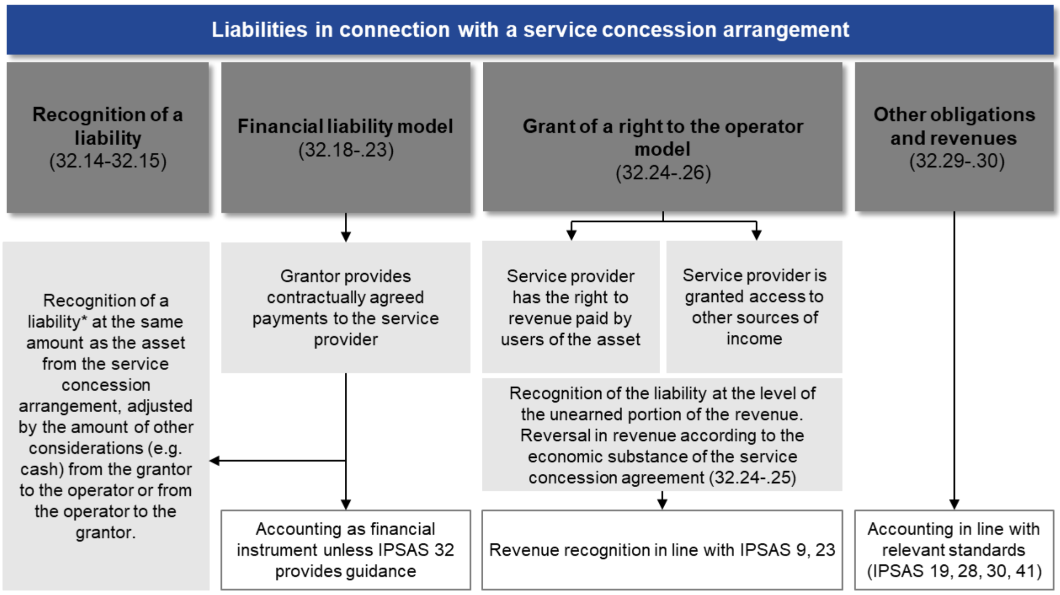
Recognition and measurement

The public-sector grantor recognises an asset as property, plant and equipment or intangible assets, if the following criteria are satisfied:



After initial recognition, the subsequent measurement in line with IPSAS 32.13 takes place within a separate class of assets in accordance with the requirements of IPSAS 17 (Property, Plant and Equipment) or IPSAS 31 (Intangible Assets). If there is an indication of impairment, IPSAS 21 (Impairment of Non-Cash-Generating-Assets) and IPSAS 26 (Impairment of Cash-Generating-Assets) apply accordingly.

When a service concession is recognised, a liability is also to be recognised as shown in the following diagram:



*No recognition of a liability if an existing asset is reclassified to a service concession arrangement asset.

Presentation

Assets in connection with a service concession are recognised at the grantor either under property, plant and equipment (IPSAS 17) or intangible assets (IPSAS 31) (IPSAS 32.33).

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
	- A business relationship between the private (operator) and the public sector (grantor) on a *public sector* service (IPSAS 32.8)	- Business relationship between the private and public sector for a service (PPP-projects) - No separation into public sector or other service.
Recognition		
	- Obligation to recognise the asset and a liability in line with control recognition. - (IPSAS 32.9)	- Dependent on the concession model in relation to ownership (e.g. Purchaser model: Recognition of an asset and liability or only disclosure in the notes). - No recognition of the concession itself.

	IPSAS	HGB
Measurement		
	- Measurement at fair value or amortised cost for existing asset. - (IPSAS 32.11) - Impairment in the case of a triggering event in the reporting year. - Measurement of the corresponding liability at the same level as the asset and reversal in revenue of the remuneration to the operator ("financial liability" model) or alignment to the economic substance / the remaining term of the service concession arrangement ("grant of right to the operator" model) - (IPSAS 32.14ff)	- If the public sector has (at least) beneficial ownership: - Asset recognition at cost (Section 253 (1) HGB)
Presentation		
	Recognition as - Asset - Liability when control criteria is satisfied. (IPSAS 32.11 + 14ff)	Recognition as - Asset - Liability depending on the model.
Disclosures in the notes		
	Extensive disclosures in the notes on the nature and scope of the explicit service concession arrangement (IPSAS 32.31)	Disclosures in the notes only on the nature and scope of PPP projected entered into.

3.9.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

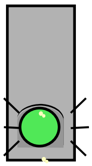
Scope When applying the standard, the lack of specificity in respect to the term "public service" and the resulting scope for interpretation led to discussions which resulted in the insight that the state of

Hesse is not a grantor within the meaning of IPSAS 32. Subsequently all the PPP projects assessed were considered and measured in line with the requirements of IPSAS 13 *Leasing*. Both for the assessment in line with IPSAS 32 and also – if it is not applied – in line with IPSAS 13, it is necessary to have the entire contractual basis available and to determine the fair value of the assets.

3.9.3 Fit-for-purpose accounting by applying IPSAS?

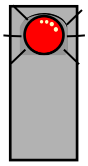
a. Summary of assessment

IPSAS 32 <u>ensures</u> fit-for-purpose accounting (in part.)



Scope/notes	• The specification of separate accounting rules for the explicitly identifiable scope (business relationship between private contractual partner (operator) and public sector (grantor)), puts the focus of this specific type of service provision in the public sector. In conjunction with the corresponding disclosures required in the notes, a transparent presentation of the relevant items covered by the standard is ensured.
Control concept	• Mandatory recognition of assets and liabilities on the basis of control in connection with a service concession results in complete presentation of assets and liabilities in the grantor’s statement of financial position and thus contributes to a transparent and comparable presentation.
Measurement	• The subsequent measurement of the liability which is aligned to the content and structure of the operator remuneration model resulting from the service concession service serves to appropriately present the development of the obligation.

IPSAS 32 <u>does not</u> ensure fit-for-purpose accounting (in part.)



Scope	• There is no practise-related specificity in respect to the definition of the “public service” which is fundamental for the delimitation of the scope of IPSAS 32. Consequently, there is scope for interpretation and judgement in the application, resulting in a restriction of the comparability of the financial statements of different entities.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	**Scope** **Business relationship between the private (operator) and the public sector (grantor) on a public sector service**	**Recognition** **Control recognition**	**Measurement** **Asset** **Initial measurement at initial recognition** **at fair value**
Transparency, (appropriate) informational content for users and understandability	Yes	Yes	Yes
	• Separate accounting rules for business relationship between private contractual partner (operator) and public sector (grantor)	• Transparent and comparable presentation as a result of mandatory recognition of assets and liabilities based on the concept of control • Complete presentation of assets and liabilities in the grantor's statement of assets and liabilities	• Valuation at fair value provides realistic value of the asset
Data quality	n/a	n/a	n/a
Comparability	No	Yes	Yes
	• Comparability adversely impacted by lack of specificity on the term "public service" and the resulting scope for interpretation	• Comparability secured with clear regulation	• Comparability secured if fair value is available or can be determined on the basis of an active market (e.g. property), expert assessments or profitability assessments
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion			
Comments / Information	• Specification of scope required, especially in relation to the term "public service"		

Measurement		Presentation	Disclosures in the notes
Asset **On subsequent measurement and accounting for existing assets, cf. IPSAS 17 or IPSAS 31**	**Liability** **Financial liability model or operator model**	**No difference**	**Extended disclosures in the notes**
	Yes		Yes
	• Accounting according to the operator remuneration model • Specific valuation model available		• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
	Yes		n/a
	• Faithful representation of the obligation		• No additional determination of information required for the disclosures in the notes
	Yes		Yes
	• Comparability secured with clear regulation		• Comparability secured with clear regulation
IPSAS does not offer fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**

4. Impairment

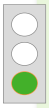
4.1 Summary

This chapter assesses the following IPSAS which are to be applied in accounting for impairment:

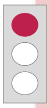
IPSAS Standard
IPSAS 21: Impairment of Non-Cash-Generating Assets
IPSAS 26: Impairment of Cash-Generating Assets

The IPSAS in this area relevant to impairment – as listed above – are assessed predominantly as fit for purpose. The contributing positive elements as well as certain points of criticism are combined in the following diagram.

Fit-for-purpose accounting



- Accrual-based identification recognition of impairment on the basis of **annual check for indications** for impairment of assets in the scope and **annual impairment test** for specific intangible assets
- Reflection of actual circumstances with **definition of the recoverable amount**



- Challenges in **delimiting the scopes** of IPSAS 21 and IPSAS 26
- Lack of comparability with scope for interpretation in **qualification as cash-generating or non-cash-generating asset**
- Restriction of comparability by **scope for design in determining the recoverable amount**

4.2 IPSAS 21: Impairment of Non-Cash Generating Assets

4.2.1 Theoretical background

Scope

IPSAS 21 applies to non-cash-generating assets, i.e. to assets which are held without the main objective of generating a commercial return. The standard regulates the method that an entity uses to determine whether a non-cash-generating asset is impaired and ensures the recognition of the impairment expense. In line with IPSAS 21.14, impairment is defined as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

The scope of IPSAS 21 to assess impairment within the meaning of this standard is developed by the delimitation of the impairment of cash-generating assets covered by IPSAS 26.

- Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity (IPSAS 21.14, 21.16). For the purpose of impairment, goodwill is regarded as a cash-generating asset.
- Non-cash-generating assets are other assets than cash-generating assets (IPSAS 21.14)

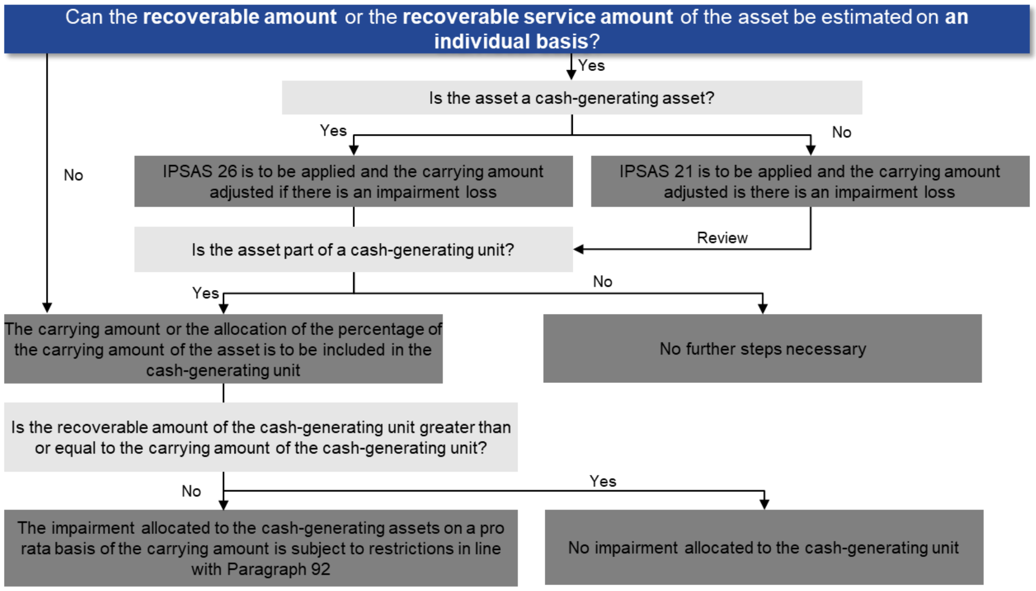
In the scope of IPSAS 21, residual assets thus include the assets which are not to be classified as cash-generating within the meaning of IPSAS 26.

21.16

Cash-generating asset (IPSAS 26)	Non-cash-generating asset (IPSAS 21)
Assets held with the **primary objective of generating a commercial return**.	**Other assets** as cash-generating assets.
Indicator for the objective of an entity of generating **positive cash inflows** from the asset and obtaining a **commercial return**.	
Public sector entities may hold certain assets with the primary objective of generating a commercial return, although the majority of assets are not held for this purpose.	An asset can be a non-cash-generating asset even though it may break even or even generate a commercial return during a particular reporting period.

Judgement is needed to determine which standard to apply. Given the overall objectives of most public sector entities, with the exception of GBEs, entitles the presumption that **assets are non-cash-generating** and thus IPSAS 21 applies.

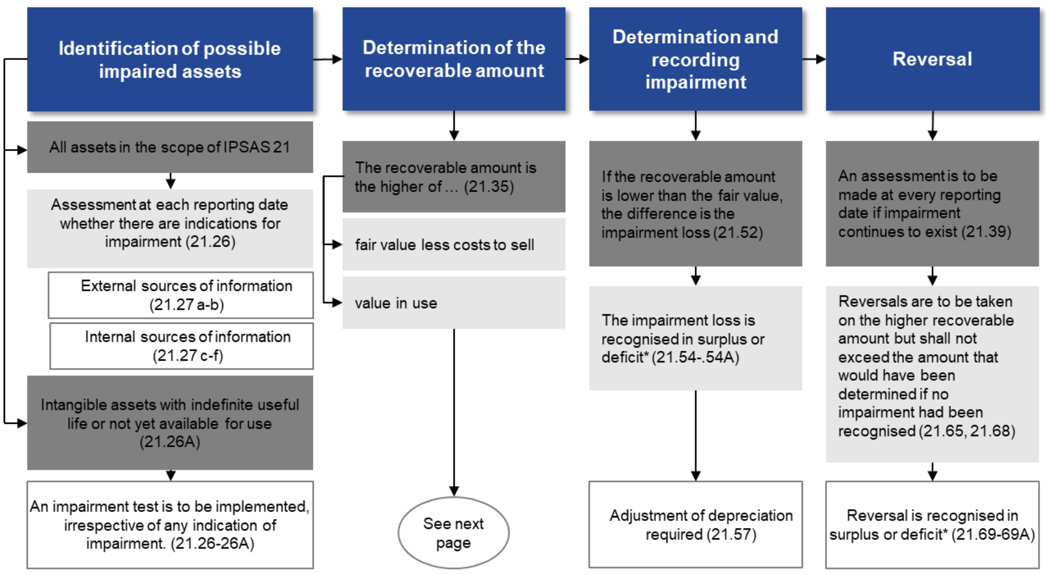
The following diagram shows the delimitation between IPSAS 21 and IPSAS 26.



Recognition and measurement

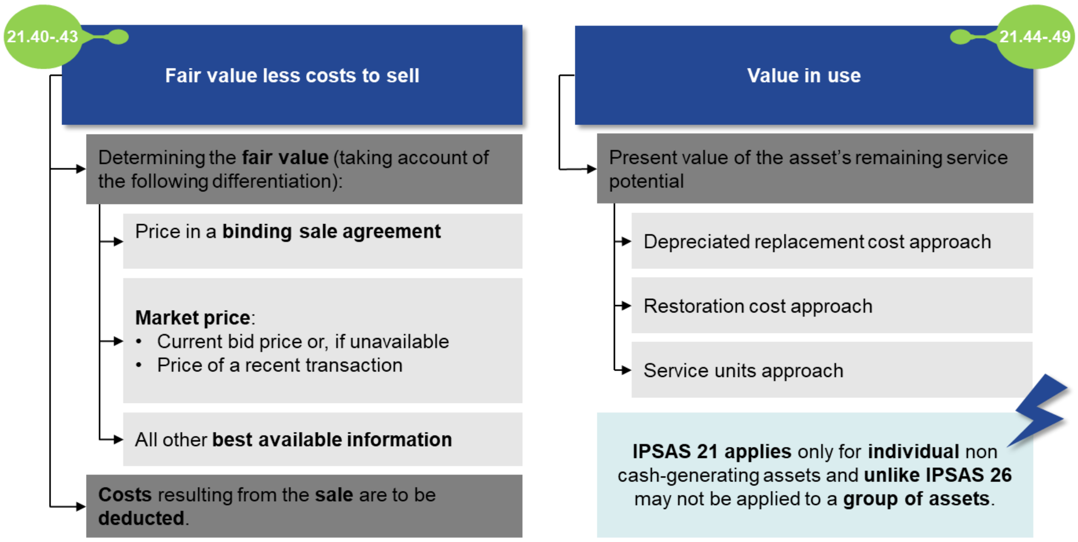
At each reporting date, an assessment is to be made whether there is any indication for a possible impairment loss of a non-cash-generating asset (IPSAS 21.26) or if there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased (IPSAS 21.59). Deviating from this, for certain assets (intangible assets with indefinite useful life and those which are not available for use) an impairment test it to be performed annually, irrespective of whether there is any indication of impairment (IPSAS 21.26A).

Identification and recognition of possible impairment and reversals is performed as follows:



*Except assets which are recognised at the revaluation amount in line with another standard (revaluation reserve)

The recoverable amount, defined as the greater of the actual (sales) value less costs to sell and the current value in use as the present value of the remaining service potential is determined as follows:



Presentation

The following aspects are to be presented as follows:

— An impairment loss or the reversal of an impairment loss is to be recognised directly in surplus or deficit (IPSAS 21.54, IPSAS 21.69).

— When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity is to recognize a liability if this required by another IPSAS (IPSAS 21.55).

— The threshold for the reversal is the carrying amount that would have been determined if no impairment loss had been recognised (IPSAS 21.68).

— In line with IPSAS 21.57 and 21.70, after an impairment or reversal of an impairment loss the depreciation or amortisation charge for future reporting periods is adjusted (systematic distribution over the remaining useful life for future reporting periods).

	IPSAS	HGB
Scope		
	• IPSAS 21 applies for individual, non-cash-generating assets which are not held with the primary objective of generating a commercial return. • Exceptions: Inventories, construction contracts, financial instruments, investment property, property, plant and equipment and intangible assets measured in line with the revaluation measure →; here the more specific requirements of the respective IPSAS apply (IPSAS 21.2) • IPSAS 26 applies to cash-generating assets.	• In line with HGB, for the treatment of write-downs, there is no differentiation between ○ cash-generating and ○ non-cash-generating assets. (Section 253 (3 -5) HGB, Section 277 (3) HGB)
Recognition		
Identification ***a.) Timing of test***	• In line with IPSAS 21, assessment at each reporting date whether there are indications for impairment. (IPSAS 21.26) • In addition, for intangible assets with an indefinite useful life or which are not yet available for use, an impairment test is to be performed once a year (Interpretation: This could also be performed at the reporting date). (IPSAS 21.26A)	• In line with HGB, also at each reporting date a check is to be made if there is occasion for a write-down. (Section 253 (3) HGB)
b.) Overview of internal and external indicators	• For the assessment if there is any indication that an asset may be impaired, IPSAS 21 provides examples of indicators. If these are present, an assessment of impairment requirements must be performed. (IPSAS 21.27 – 21.34)	• In line with HGB there are no comparable, specific requirements relating to impairment tests. (Section 253 (3 - 5) HGB) • However, comparable internal and external sources of information can be used for a test. (Section 253 (4) HGB)

	IPSAS	HGB
c.) Duration of impairment	• In line with IPSAS 21 no differentiation is made between ○ permanent and ○ only temporary impairment. • If the future economic benefits or service potential of an asset is lower on the reporting date than its carrying amount, then impairment is to be recognised. (IPSAS 21.14) • It is irrelevant if the impairment is for a longer period, because if it no longer exists, a reversal is recognised. (IPSAS 21.59)	• Differentiation between ○ write-downs expected to be only temporary and ○ write downs expected to be permanent (Section 253 (3) HGB) • Fixed assets must only be written off if permanent impairment is anticipated (less strict principle of lower of cost or market value). (Section 253 (3) HGB) • However, current assets must also be written off to the lower carrying amount, even if the impairment is not expected to be permanent (strict principle of lower of cost or market value). (Section 253 (4) HGB)
Measurement		
Determination of the recoverable amount ***Measurement categories***	• In line with IPSAS 21.35 the recoverable service amount is the higher of ○ the current value in use and the present value of the remaining service potential, and ○ Fair value of the asset less costs to sell	• Calculation of the fair value depends on whether the asset is a fixed asset or current asset. (Section 253 (3 and 4) HGB) • Permitted recognition on the basis of item-based measurement: ○ Replacement value ○ Reproduction value ○ Quoted or market price ○ Income value (e.g. with patents and licenses or with leased assets)
Determining impairment	• If the recoverable service amount is lower than the carrying amount, the difference is the impairment to be recognised. (IPSAS 21.52) • The impairment is to be recognised in surplus or deficit. (IPSAS 21.54) • Special case: However if the estimated impairment loss is great than the previous carrying amount, then a liability is to be recognised if this is required by another IPSAS. (IPSAS 21.55) After recognition of impairment, the depreciation / amortisation charge is to be adjusted for future reporting periods. (IPSAS 21.57)	• HGB If the fair value is lower than the carrying amount, the difference is impairment. • The impairment is to be recognised in profit or loss. After the recognition of impairment, the depreciation / amortisation charge is to be adjusted for future reporting periods

	IPSAS	HGB
Reversal	• An assessment is to be made at every reporting date if impairment continues to exist. (IPSAS 21.59) • If the recoverable service amount is greater than the fair value, the difference is the reversal of the impairment loss, but only up to a maximum that would have been determined if no impairment loss had been recognized. (IPSAS 21.65, IPSAS 21.68)	• An assessment is to be made at every reporting date if impairment continues to exist. (Section 253 (5) HGB) • If the fair value is higher than the carrying amount, the value of the asset is to be increased in profit and loss (reversal) and the increased value, but no more than original cost (assets with finite useful life amortised cost), is to be presented (requirement to reverse a write-down). (Section 253 (5) HGB)
Recognition of reversal	• The reversal is to be recognised an income. Any liabilities established as a result of impairment are to be reversed. (IPSAS 21.69) • After the recognition of the reversal of an impairment loss, the depreciation / amortisation charge is to be adjusted for future reporting periods. (IPSAS 21.70)	• If the fair value is higher than the carrying amount, the value of the asset is to be reversed in profit and loss (reversal) and the increased fair value, but no more than original cost (assets with finite useful life amortised cost), is to be presented (requirement to reverse a write-down). • After the recognition of the reversal of an impairment loss, the depreciation / amortisation charge is to be adjusted for future reporting periods.

Presentation

	-	• In line with Section 277 (3) sentence 1 HGB, write-downs can be presented as an alternative to the separate presentation in the statement of financial performance in the notes (as total).

Disclosures in the notes

	• Disclosure of the criteria used to differentiate between non-cash-generating and cash-generating assets. (IPSAS 21.72A) • Amount of impairment losses / reversals of impairment losses (separate information) recognised in surplus or deficit in the reporting period and the items of the statement of financial performance in which the impairment losses are included / reversed for each group of assets. (IPSAS 21.73)	• The reporting obligations relates exclusively to write-downs on intangible assets, fixed assets and financial assets. (Section 253 (3) sentences 5, 6 HGB) • Moreover, the write-downs on current assets regulated in Section 253 (4) HGB are not to be recognised separately. • Further disclosures in the notes in line with Section 285 No. 18 HGB relating to financial instruments which are recognised on the basis of fair value.

	IPSAS	HGB

	• The following is to be disclosed for material impairment losses recognised or reversed in a reporting period:
	  ○ Events / circumstances that led to recognition;
	  ○ Amount of the impairment loss recognised or reversed;
	  ○ Nature of the asset;
	  ○ Whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use;
	  ○ Basis for determining the fair value (if recoverable service amount = fair value less costs to sell).
	  ○ Recognition for determining the value in use (if recoverable service amount = current value in use).
	(IPSAS 21.77)
	• Disclosures for non-significant impairment (aggregate) / reversals (aggregate) during a reporting period.
	(IPSAS 21.78)	

4.2.2 Notable practical insights from implementation

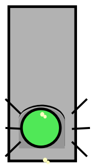
The following insights resulted from implementing the standard:

Scope	The requirements to determine and recognise impairment for the public sector is contained in two separate standards IPSAS 21: *Impairment of Non-Cash-Generating Assets* and IPSAS 26: *Impairment of Cash-Generating Assets*. They are closely correlated and should thus be viewed in context. In practise the requirement resulting from the separation to have a differentiation between cash-generating and non-cash-generating assets proved to be challenging. In the state of Hesse, account was taken of the thematic objectives of the public sector as a fundamental, primary differentiation criteria so that – with the exception of goodwill at the level of entities accounted for using the equity method – there were exclusively items in the scope of IPSAS 21.
Recognition and measurement	In the context of the IPSAS financial statements presented, no standard process was implemented for performing an impairment test in line with IPSAS 21 and IPSAS 26. When introducing IPSAS, this would be necessary to do justice to the requirements of the standard (testing the existing of triggering events; performance of an annual impairment test of specific assets). For the one-off trial in respect to accounting in line with international accounting standards, for simplification purposes existence of impairment in line with national commercial law was interpreted as a triggering event.

4.2.3 Fit-for-purpose accounting by applying IPSAS?

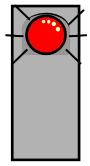
a. Summary of assessment

IPSAS 21 <u>ensures</u> fit-for-purpose accounting (in part.)



Performing impairment test	• The obligatory annual impairment test mandated by the standard for intangible assets not subject to amortisation (i.e. those with indefinite useful lives and internally generated intangible assets which are not available for use), increases the relevance of the non-scheduled impairment. This ensures identification and, if necessary, recognition of impairment on an accrual basis, preventing overvaluation. • At the same time, the requirement to perform impairment tests for all other non-cash-generating assets only when there are indications for impairment seems suitable for an appropriate presentation of the same. The examples for such indications contained in the standard increased the objectifiability; however, at the same time there is scope for judgement.
Determination of the recoverable amount	• The amounts underlying the impairment test for a comparison against the carrying amount (higher of the current value in use and fair value of the asset less costs to sell) should – when determining the amount on the basis of data which are as objectifiable as possible – result in a measurement of the assets reflecting the actual situation.

IPSAS 21 does not ensure fit-for-purpose accounting (in part.)



Scope/definition

- The negative differentiation given in IPSAS 21 as definition for non-cash-generating assets from that of a cash-generating asset specified in ISPAS 26 allows – despite the examples provided on an additional basis - much scope for interpretation in respect to classifying the assets. Thus, the comparability of different reporting entities is negatively impacted.
- IPSAS 21 is applied exclusively to individual assets; performing impairment tests for an appropriate group of non-cash-generating assets (similar to cash-generating units in line with IPSAS 26) is not permitted. This results in further challenges and a lack of clarity in the differentiation between IPSAS 21 and IPSAS 26, as the assessment levels (individual asset vs. cash-generating unit) are different.
- The breakdown of requirements for the impairment of non-financial assets results in increased complexity, both in the application and in an understanding of the accounting standard used.

Determination of the recoverable amount

- The determination of fair value for the relevant assets of a public entity can prove to be a challenge, as there is often no active market for them. It is true that the standard does specify requirements on how to act in this case; however, the amounts determined are generally subject to judgement.
- The procedure largely defined in the standard for determining the current value in use give the reporting entity the possibly of selecting suitable determination methods for different types of assets; however the diversity can result in large scope for design and thus in a lack of comparability.
- Initially the process for determining the current value in use is to be assessed as abstract and complex, so that it appears that examples for its application are essential. However, the application information on the standard does not provide examples for all typical asset classes; in particular little light is shed on items from the area of infrastructure assets and natural goods.

b. Detailed assessment

	Scope	Recognition
Contributing factors for an assessment of fit-for-purpose accounting	**Separation of cash-generating and non-cash-generating assets**	**Performance of an impairment test**
Transparency, (appropriate) informational content for users and understandability	No	Yes
	• Breakdown of requirements for the impairment of non-cash-generating and cash-generating assets results in increased complexity, both in the application and understanding of the accounting standard used	• Mandatory annual impairment test for intangible assets not subject to amortisation allows early identification of possible impairment
Data quality	No	Yes
	• Unlike IPSAS 26, impairment tests for an appropriate group of assets is not permitted • Result: Different assessment levels and a lack of clarity in the differentiation	• Mandatory annual impairment test for intangible assets not subject to amortisation prevents overvaluation and allows recognition of impairment on an accrual basis • Requirement to perform impairment tests for other assets only when there are indications for impairment appropriate for a suitable presentation
Comparability	No	No
	• Differentiation between non-cash-generating assets and cash-generating assets specified in IPSAS 26 allows scope for interpretation in respect to classifying the assets and thus a negative impact on comparability	• Examples for indications of impairment increase objectifiability in principle; however, at the same time there is scope for judgement
Summary	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		
Comments / Information	• The required separation between cash-generating and non-cash-generating assets proved to be challenging in practice. • In the state of Hesse, account was taken of the thematic objectives of the public sector as a fundamental, primary differentiation criterion so that there were exclusively items in the scope of IPSAS 21 (exception: goodwill).	

Measurement	Presentation	Disclosures in the notes
Determination of the recoverable amount	**No difference**	**Extended disclosures in the notes**
Yes		Yes
• Impairment test – when determining the amount on the basis of data which are as objectifiable as possible – results in a measurement of the assets reflecting the actual situation		• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
No		n/a
• Often no active market for public-sector assets (thematic objective), thus determining the current value in use is regularly subject to judgement		• No additional determination of information required for the disclosures in the notes
No		Yes
• Scope of design in the choice of suitable determination methods to determine current value in use can be connected with a negative impact on the comparability of financial statements of different entities		• Comparability secured with clear regulations
IPSAS does not offer fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
• Process for determining the current value in use is complex, so that examples for its application would be desirable		

4.3 IPSAS 26: Impairment of Cash-Generating Assets

4.3.1 Theoretical background

Scope

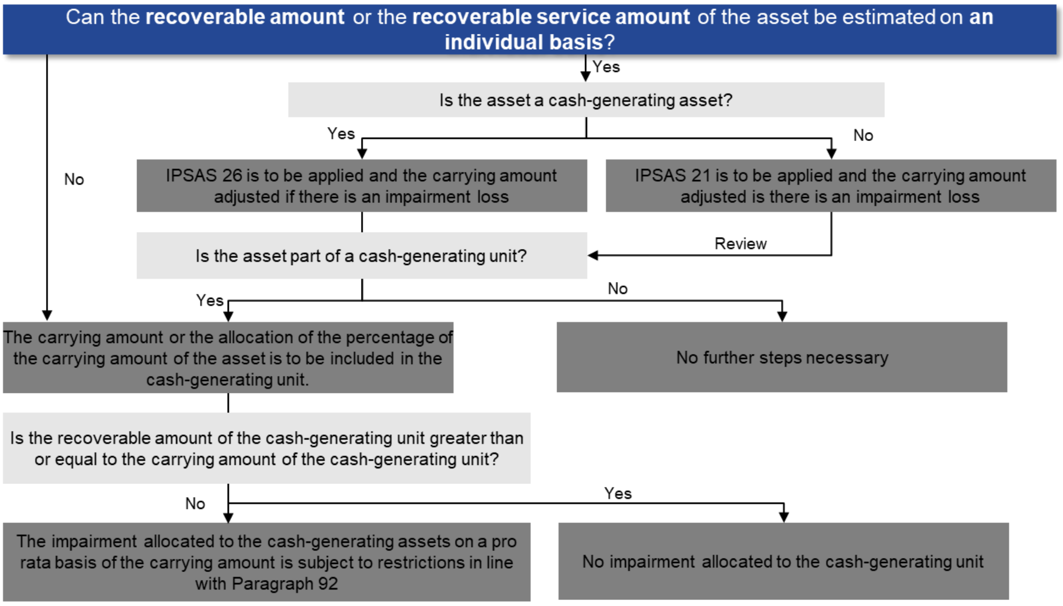
IPSAS 26 is relevant for cash-generating assets, i.e. assets held with the primary objective of generating a commercial return. The standard regulates the method an entity uses to determine if a cash-generating asset is impaired and ensures the recognition of the impairment loss. The impairment to be determined under IPSAS 26 is the loss of future economic benefits or service potential of an asset in excess of the systematic recognition of the amortisation of the future economic benefits or service potential on the basis of amortisation (IPSAS 26.20), i.e. non-scheduled amortisation.

The scope of IPSAS 26 to assess impairment within the meaning of this standard is developed by the delimitation of the impairment of non-cash-generating assets covered by IPSAS 21.

— Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity (IPSAS 26.14 - 26.18). For the purposes of impairment, goodwill is considered a cash-generating asset (IPSAS 26.18A).

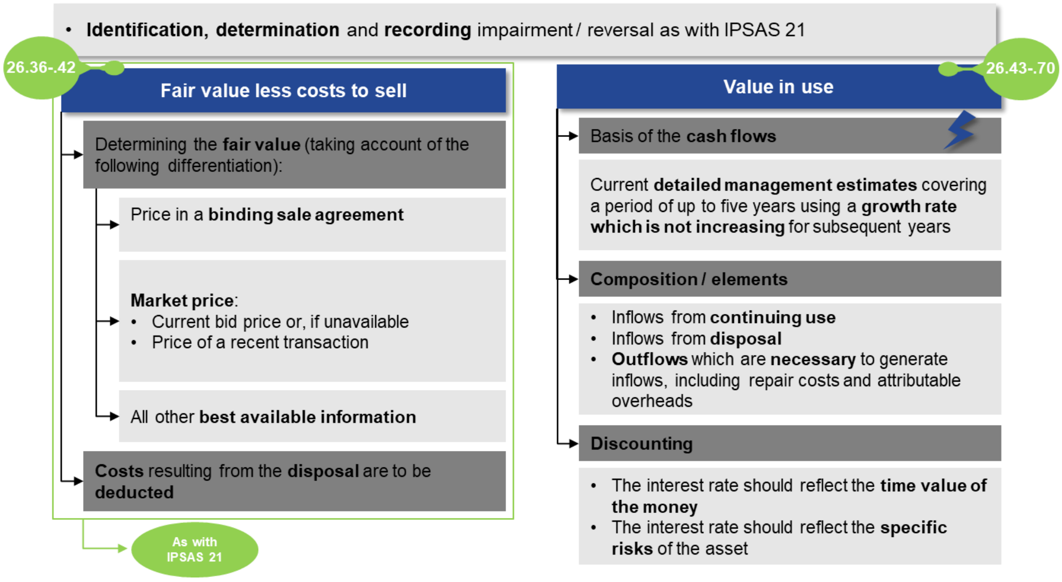
— Non-cash-generating assets are other assets than cash-generating assets (IPSAS 21.14).

The following diagram shows the distinction between IPSAS 26 and IPSAS 21.



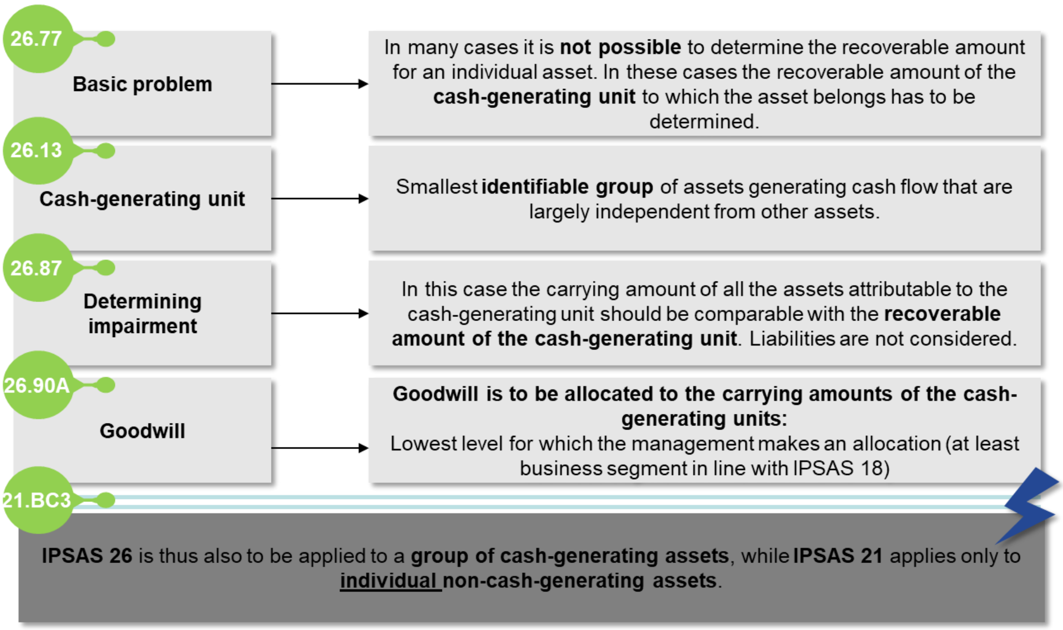
Recognition and measurement

An impairment loss or the reversal of an impairment loss is identified, determined and recognised similar to the process in IPSAS 21. Thus at each reporting date an assessment needs to be made, also for cash-generating assets, whether there is any indication for a possible impairment (IPSAS 26.22) or, if there is a reason for considering an impairment in earlier reporting periods no longer existing in the current reporting period, or whether it has decreased (IPSAS 26.99). In line with the specification of IPSAS 21, an annual impairment test is to be performed - irrespective of whether there is any indication of impairment – for intangible assets with indefinite useful lives or those not yet available for use (IPSAS 26.23A). However, the recoverable amount to be determined when performing the impairment test deviates – as described below – from the amount defined in line with IPSAS 21. However, for goodwill an annual impairment test is still to be performed.



If it is not possible to allocate a recoverable amount to the individual asset, IPSAS 26.77 stipulates that the recoverable amount of the cash-generating unit to which the asset belongs is determined. This is the smallest identifiable group of assets generating cash flow that are largely independent from other assets (IPSAS 26.79).

In this case, there is an aggregate view of the carrying amounts of all the assets belonging to this entity with the total recoverable amount relating to this entity (IPSAS 26.87, 26.91).



Presentation

The following aspects are to be recognised as follows:

— An impairment loss or the reversal of an impairment loss is to be recognised directly in surplus of deficit (IPSAS 26.73, 26.108).

— When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity has to recognize a liability if this required by another IPSAS (IPSAS 26.74).

— The threshold for the reversal is the carrying amount that would have been determined if no impairment loss had been recognised (IPSAS 26.106).

— After an impairment or recovery, the depreciation or amortisation charge for future reporting periods is adjusted (systematic distribution over the remaining useful life for future reporting periods) (IPSAS 26.75, 26.109).

— Reclassification of the asset: If a previous cash-generating asset is now designated as non-cash-generating, this does not in itself necessary provide an indication for a change in value (IPSAS 26.112).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 26 applies for cash-generating assets and for cash-generating items held with the primary objective of generating a commercial return. Assumption is that assets in the public sector are non-cash-generating (IPSAS 26.18) In line with IPSAS 26.18a, goodwill it always to be regarded as a cash-generating asset.	In line with HGB, for the treatment of write-downs there is no differentiation between cash-generating and non-cash-generating assets. (Sections 238 ff. HGB)
Recognition		
Identification ***a.) Timing of test***	In line with IPSAS 26.22, an assessment at each reporting date is to be made whether there are indications for impairment.	In line with HGB, an assessment is to be made at each reporting date if there is occasion for a write-down.
b.) Overview of internal and external indicators	For the assessment if there is any indication that an asset may be impaired, IPSAS 26.25 – 26.27 provides examples of indicators. If these are present, at least an assessment of impairment requirements must be performed.	There is no comparable overview in line with HGB.
c.) Duration of impairment	In line with IPSAS 26, there is no differentiation between permanent and only temporary impairment. If the future economic benefits or service potential of an asset is lower on the reporting date than its carrying amount, then impairment is to be recognised. (IPSAS 26.20) It is irrelevant if the impairment is for a longer period, because if it no longer exists, a reversal is recognised in any case. (IPSAS 26.99)	Differentiation between temporary write-downs and write downs expected to be permanent (Section 253 (3) HGB) Fixed assets must only be written off if permanent impairment is anticipated (less strict principle of lower of cost or market value). (Section 253 (3) HGB) However, current assets must also be written off to the lower carrying amount, even if the impairment is not expected to be permanent (strict principle of lower of cost or market value). (Section 253 (4) HGB)

	IPSAS	HGB
Measurement		
Determination of the recoverable amount ***Measurement categories***	In line with IPSAS 26.31 the recoverable service amount is the higher of ○ the current value in use and the present value of the remaining service potential, and ○ Fair value of the asset less costs to sell To determine the value in use, future cash flows must be calculated on the basis of a previously calculated discount rate. The factors to be taken into account in the calculation include: ○ An estimate of the future cash flows the entity can derive from the asset from use or disposal; ○ Expectations about deviations in terms of timing and amount of these cash flows. (IPSAS 26.43ff)	Calculation of the fair value depends on whether the asset is a fixed asset or current asset. (Section 253 (3 and 4) HGB) Permitted recognition: ○ Replacement value ○ Reproduction value ○ Quoted or market price There is no comparative calculation between the two figures or a deduction of the cost to sell.
Determining impairment	If the recoverable amount is lower than the fair value, the difference is the impairment loss. (IPSAS 26.72) The impairment is to be recognised in surplus or deficit. (IPSAS 26.73) Special case: However if the estimated impairment loss is great than the previous carrying amount, then a liability is to be recognised if this is required by another IPSAS. (IPSAS 21.74) After the recognition of an impairment, the deprecation / amortisation charge is to be adjusted for future reporting periods. (IPSAS 26.75)	If the fair value is lower than the carrying amount, the different is the write-down to be recognised. The impairment is to be recognised in profit or loss. After the recognition of an impairment, the deprecation / amortisation charge is to be adjusted for future reporting periods.

	IPSAS	HGB
Reversing the impairment loss	An assessment is to be made at every reporting date if impairment continues to exist. (IPSAS 26.99) If the recoverable amount is greater than the fair value, the difference is reversal of the impairment loss, but only up to a maximum that would have been determined if no impairment loss had been recognized. (IPSAS 26.106) The reversal is to be recognised an income. (IPSAS 26.108) After the recognition of the reversal of an impairment loss, the depreciation / amortisation charge is to be adjusted for future reporting periods. (IPSAS 26.109)	An assessment is to be made at every reporting date if impairment continues to exist. If the fair value is higher than the carrying amount, the value of the asset is to be reversed in profit and loss (reversal) and the increased fair value, but no more than original cost (with assets with finite useful life amortised cost), is recognzied (requirement to reverse a write-down). After the recognition of the reversal of an impairment loss, the depreciation / amortisation charge is to be adjusted for future reporting periods.
Presentation		
	Impairment is recognised directly in deficit, reversal of an impairment loss as surplus. (IPSAS 26.73, 26.108) If the amount estimated for an impairment loss is greater than the previous carrying amount, recognition of a liability if that is required by another standard. (IPSAS 26.74)	The impairment is to be recognised in profit or loss.
Disclosures in the notes		
	Disclosure of the criteria used to differentiate between non-cash-generating and cash-generating assets. (IPSAS 26.114) Amount of impairment losses / reversals of impairment losses (separate information) recognised in surplus or deficit in the reporting period and the items of the statement of financial performance in which the impairment losses are included / reversed for each group of assets. (IPSAS 26.115) The following is to be disclosed for material impairment losses recognised or reversed in a reporting period: ○ Events / circumstances that led to recognition; ○ Amount of the impairment loss recognised or reversed;	In line with Section 277 (3) sentence 1 HGB, write-downs are disclosed in the notes (as a total). The reporting obligations relates exclusively to write-downs on intangible assets, fixed assets and financial assets. (Section 253 (3) sentences 5, 6 HGB) Moreover, the write-downs on current assets regulated in Section 253 (4) HGB are not to be recognised separately.

	IPSAS	HGB
	○ Nature of the asset; ○ Description of the cash-generating unit (e.g. product line); ○ Amount of recognised / reversed impairment with group of assets; ○ Presentation of changes relating to the cash-generating units for which an impairment or a reversal of an impairment loss was recognised; ○ Whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use; ○ Basis for determining the fair value (if recoverable service amount = fair value less costs to sell); ○ Discount rate (if recoverable service amount = current value in use). (IPSAS 26.120) Disclosures for non-significant impairment (aggregate) / reversals (aggregate) during a reporting period. (IPSAS 26.121) Furthermore detailed disclosures on esti-mates used to measure the recoverable amounts of the cash-generating items which include intangible assets with indefinite useful lives. (IPSAS 26.123)	

4.3.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Scope

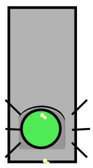
The requirements to determine and recognise impairment for the public sector is contained in two separate standards IPSAS 21: *Impairment of Non-Cash-Generating Assets* and IPSAS 26: *Impairment of Cash-Generating Assets*. They are closely correlated and should thus be viewed in context. In practise the requirement resulting from the standard separation of differentiating between cash-generating and non-cash-generating assets proved to be challenging. In the state of Hesse, account was taken of the thematic objectives of the public sector as a fundamental, primary differentiation criteria so that – with the exception of goodwill at the level of entities accounted for using the equity method – there were exclusively items in the scope of IPSAS 21.

As the goodwill to be assessed in line with IPSAS 26 was of subordinate importance in terms of value, the previous valuations (in line with commercial law) were retained. For this reason, this project did not result in any further practical insights from the application of IPSAS 26.

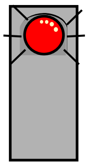
4.3.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 26 <u>ensures</u> fit-for-purpose accounting (in part.)

Performing impairment test	• The obligatory annual impairment test mandated by the standard for intangible assets not subject to amortisation (i.e. those with indefinite useful lives and internally generated intangible assets which are not available for use) increases the relevance of the non-scheduled impairment. This ensures identification and, if necessary, recognition of impairment on an accrual basis, preventing overvaluation. • At the same time, the requirement to perform impairment tests for all other cash-generating assets only when there are indications for impairment seems appropriate for a suitable presentation of the same. The examples for such indications contained in the standard increased the objectifiability; however, at the same time there is scope for judgement.	
Determination of the recoverable amount	• Requirements for determining the recoverable amount correspond largely to the requirements to be applied in the private sector. Due to the classification of the relevant assets/groups of assets as cash-generating, they seem to be appropriate and provide the users of the financial statements a true and fair view.	

IPSAS 26 does not ensure fit-for-purpose accounting (in part.)



Scope/definition

- The formulation of application examples for negative differentiation given in IPSAS 21 and IPSAS 26 allows – despite the examples provided – much scope for interpretation and judgement. Comparability between various reporting entities is thus reduced.
- The use of different assessment levels in IPSAS 21 and IPSAS 26 (exclusively individual assets vs. admissibility of the assessment of cash-generating units) results in challenges and a lack of clarity in the differentiation between IPSAS 21 and IPSAS 26, as the assessment levels (individual asset vs. cash-generating unit) are different.
- The breakdown of requirements for the impairment of non-financial assets results in increased complexity, both in the application and in an understanding of the accounting standard used.

Goodwill

- The mandatory implementation of an annual impairment test for goodwill seems, as described above, to be sensible in view of the fact that depreciation and amortisation are not intended in line with IPSAS.
- However, the explicit definition of goodwill as cash-generating reinforces the problem of demarcation between IPSAS 21 and IPSAS 26 and may inhibit an appropriate classification of assets. Goodwill is generally not to be tested individually, but only as part as a larger group of assets. However, in view of the thematic objectives in the public sector, the classification of such units as cash generating do not always appear appropriate, as also for strategic reasons and taking account the goal of achieving the thematic objective the payment of a purchase price which results in recognition of goodwill is conceivable.

Determination of the recoverable amount

- Even with impairment similar to those of the requirements in the private sector on the recoverable amount (the higher of sales value less costs to sale and value in use) which is to be regarded positively, there is a high degree of judgement inherent in the measurement. In particular, determining the value in use – also in the private sector when applying IAS 36 – is dependent on a large number of assumptions. This makes objectifiability and also comparability of the figures used questionable.
- It remains to be discussed whether the existence of such a complex and extensive set of regulations to determine impairment of cash-generating assets – a somewhat subordinated subject area due to the thematic objectives in the public sector – can actually produce the desired objective.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope: Separation of non-cash-generating and cash-generating assets	Scope: Goodwill	Recognition: Performance of an impairment test
Transparency, (appropriate) informational content for users and understandability	No	No	Yes
	• Breakdown of requirements for the impairment of non-cash-generating and cash-generating assets results in increased complexity, both in the application and understanding of the accounting standard used	• Goodwill is generally to be tested as part as a larger group of assets. Thus the explicit definition of goodwill as cash-generating can adversely impact an appropriate classification of assets	• Mandatory annual impairment test for intangible assets not subject to amortisation allows early identification of possible impairment
Data quality	No	No	Yes
	• Unlike IPSAS 21, impairment tests for an appropriate group are permitted • Result: Different assessment levels and a lack of clarity in the differentiation	• In view of the thematic objectives in the public sector, the classification of goodwill as cash generating does not always appear appropriate	• Mandatory annual impairment test for intangible assets not subject to amortisation prevents overvaluation and allows recognition of impairment on an accrual basis • Requirement to perform impairment tests for other assets only when there are indications for impairment appropriate for a suitable presentation
Comparability	No	Yes	No
	• Differentiation between non-cash-generating assets and cash-generating assets specified in IPSAS 26 allows scope for interpretation in respect to classifying the assets and thus a negative impact on comparability	• Clear regulations that goodwill is part of the scope of IPSAS 26 generally positively impacts comparability	• Examples for indications of impairment increase objectifiability in principle; however, at the same time there is scope for judgement
Summary	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion	• Common regulation (combination of IPSAS 21 and IPSAS 26) sensible		
Comments / Information	• The required separation between cash-generating and non-cash-generating assets proved to be challenging in practice. • In the state of Hesse, account was taken of the thematic objectives of the public sector as a fundamental, primary differentiation criterion so that there were exclusively items in the scope of IPSAS 21 (exception: goodwill).		

Measurement		Presentation	Disclosures in the notes
Determination of the recoverable amount	**For the treatment of goodwill, refer to IPSAS 40**	**No difference**	**Extended disclosures in the notes**
Yes			Yes
• Requirements on determining the recoverable amount provide the users of the financial statements a true and fair view			• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
No			n/a
• Determination of the value in use - even when there is an active market - depends on a large number of assumptions, which limits objectifiability and comparability			• No additional determination of information required for the disclosures in the notes
No			Yes
• Cf data quality			• Comparability secured with clear regulations
IPSAS does not offer fit-for-purpose accounting			**IPSAS offers fit-for-purpose accounting**
• To be discussed whether the existence of a complex set of regulations to determine impairment of cash-generating assets – a somewhat subordinated subject area due to the thematic objectives in the public sector – can actually produce the desired objective			

5. Financial Instruments

5.1 Summary

This chapter assesses the following IPSAS which are to be applied in accounting for financial instruments:

IPSAS Standard
IPSAS 28: Financial Instruments: Presentation
IPSAS 41: Financial Instruments
IPSAS 30: Financial Instruments: Disclosures

The three standards assessed in these chapter have a close factual connection, with the result that there is overall assessment of the fitness for purpose – as shown in the following diagram. In addition, it should be pointed out that the regulations on recognition, measurement and presentation in line with IPSAS 28 and IPSAS 41 are to be assessed especially in the context of the disclosures in the notes in line with IPSAS 30. Account is taken of this fact by including the disclosures in the notes in the respective assessment of the regulations of IPSAS 28 and IPSAS 41 (refer to tables on fitness for purpose in Section D.5.3.3 and D.5.4.3).

To summarise, it should be noted that the relevant IPSAS for accounting for financial instruments are predominantly assessed as fit for purpose. The key positive and negative factors which are the basis of this assessment are shown in the diagram below.

Fit-for-purpose accounting

- Transparency by classification of financial instruments on the basis of **recognition categories** with explanatory disclosures in the notes
- Transparency by **delimitation of equity and debt instruments** in line with repayment criteria
- Up-to-datedness by disclosing fair values
- Transparency by application of the **expected credit loss model**
- Presentation on an accrual basis by using the **effective interest method**
- Comprehensive overview about **financial risks** and **risk management** of an entity
- Increased transparency by recognising **positive and negative fair values** in hedge accounting

- Restriction of comparability due to **option to apply hedge accounting**
- Restriction of verifiability with **complexity** of requirements on **accounting for and disclosures on** hedge accounting

5.2 IPSAS 28: Financial Instruments: Presentation

5.2.1 Theoretical background

Scope

IPSAS 28 is to be applied to all types of financial instruments (IPSAS 28.3). However, application is excluded for topics regulated explicitly in other standards, such as associates or joint ventures, for which the regulations of IPSAS 34-36 are to be applied and rights and obligations under employee benefit plans for which the regulations of IPSAS 39 are to be applied (IPSAS 28.3).

IPSAS 28 defines financial instruments and establishes the principles for the presentation of financial instruments as liabilities or net assets / equity and for offsetting financial assets and financial liabilities. These relate to the classification of financial instruments into financial assets, financial liabilities and equity instruments (IPSAS 28.1).

In general, IPSAS 28 should not be viewed in isolation, but in conjunction with the corresponding standards IPSAS 30 Financial Instruments: Disclosures and IPSAS 41 Financial Instruments (IPSAS 28.2).

Presentation

In line with IPSAS 28.9, a financial instrument is a contract between two entities that at the same time gives rise to both a financial asset at one entity and a financial liability or equity instrument at another entity.

According to IPSAS 28.9, financial assets cover the following assets:

- Cash,
- Equity instruments of other entities,
- Contractual rights to receive cash or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable, and
- Certain contracts which are or may be settled in own equity instruments.

Examples for financial assets are securities in fixed and current assets, receivables as well as cash and cash equivalents.

In line with IPSAS 28.9, financial liabilities result from contractual obligations 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 or from a contract settled in the entity’s own equity instruments.

In line with IPSAS 28.9, an equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, an equity instrument exists only when the reporting entity is not subject to any repayment obligation to the capital provider in respect to the capital provided.

In line with IPSAS 28.13, financial instruments or their component parts must be classified and recognised by the issuer in accordance with the substance of the contractual arrangement and the definitions of

- financial assets,
- financial liabilities and
- equity instruments.

In this context, IPSAS 28 provides detailed regulations on when equity and when debt is to be recognised.

IPSAS stipulates minimum components for the balance sheet which are generally to be classified in line with the maturity of the individual items (short-term and long-term). Financial instruments are also to be recognised in line with this classification.

If interest, dividends or similar distributions in connection with financial instruments generate gains or losses, these must be recognised in surplus or deficit (IPSAS 28.40).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 28 is applied to all types of financial instruments; excluded however, are topics explicitly regulated in other standards (e.g. interests in other entities, obligations under employee benefit plans).	Application of the regulations on all financial instruments shown in Section 266 HGB.
Recognition		
	-	-
Measurement		
	-	-
Presentation		
	IPSAS does not provide any specific presentation regulations for financial instruments. There is an exception for receivables and liabilities. Here, in line with IPSAS 1.88, a differentiation is to be made between receivables from non-exchange transactions (taxes and transfers) and receivables from exchange transactions. The same exception also applies to liabilities.	For the recognition of financial assets and liabilities, Section 266 HGB is to be used, which prescribes an exact classification.
	In line with IPSAS, a financing instrument is a liability on the basis of the contractual obligation to return for the capital provider at specific conditions, while an equity instrument has a residual interest in the assets of the enterprise after deduction of all liabilities. (IPSAS 28.9)	In HGB, delimitation of equity and debt is primarily be made via the liability function.
Disclosures in the notes		
	-	-

5.2.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Identification of financial instruments

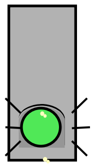
The identification of financial instruments as referred to in IPSAS 28 required an analysis of the facts on the basis of the definition criteria at account and item level. This required extensive manual work. There were particular challenges here when both financial assets within the meaning of IPSAS 28 and those items which are to be eliminated in line with IPSAS (e.g. upfront payment on interest swaps) were recognised on the same account.

Considerable manual work also resulted from the identification of financial instruments for the seven entities which in line with IPSAS were included in the scope of consolidation for the first time. This is because the necessary detailed information was not available via a connected IT systems. At the same time, relevant data was calculated on the basis of the financial statements prepared by the entities in line with commercial law – an option which would not be possible in connection with controlled entities using cash accounting.

5.2.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 28 <u>ensures</u> fit-for-purpose accounting (in part.)



Identification of financial instruments

- IPSAS do not include any exhaustive list of financial instruments, but present a definition of financial assets and liabilities as well as relevant examples. This allows a clear definition of financial instruments and thus secures the comparability of financial statements.
- Transparency on existing financial instruments and thus correspondingly understandable informational contents is provided in connection with the disclosure of carrying amounts of fair values of financial assets and liabilities into categories required by IPSAS 30.

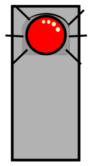
Presentation rules

- IPSAS 28 does not provide any specific presentation rules for financial instruments and for certain items (receivables and liabilities) refers to the rudimentary classification requirements of IPSAS 1. Thus IPSAS 28 – in connection with IPSAS 1 – allows the reporting entity to present the items relevant for the entity. This allows the flexibility required to highlight the individual focus areas and special features of the respective entity, thus producing the highest level of transparency. Possible restrictions of comparability as a result of this scope of design are countered by corresponding disclosures in the notes in line with IPSAS 30.

Definition of debt and equity instruments

- IPSAS bases the definition of debt and equity instruments on the existence of repayment requirements and obligations. This results in a closeness to the budgetary, often payment-oriented, view of the public sector. As a result of the corresponding relevant explanations, the methodology and presentation for defining debt and equity instruments is understandable, also for the users, so that fitness for purpose can be confirmed.

IPSAS 28 <u>does not</u> ensure fit-for-purpose accounting (in part.)



Identification of financial instruments

- Even if – as described above – a transparency on the delimitations between financial and non-financial assets and liabilities can be confirmed on the basis of the necessary disclosures in the notes, there is a lack of clarifying definitions on specific items in IPSAS 28 (e.g. tax receivables as non-exchange transactions). Relevant additions would contribute to improved understandability.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition -	Measurement -
Transparency, (appropriate) informational content for users and understandability			
Data quality			
Comparability			
Summary	IPSAS offers fit-for-purpose accounting		
Conclusion			
Comments / Information			

Presentation			Disclosures in the notes
Definition of financial assets and liabilities	**General presentation rules**	**Definition of debt and equity instruments**	**-**
Yes	Yes	Yes	
• Transparency created on all existing financial instruments on the basis of the mandatory listing of the carrying amounts / fair values of financial assets and liabilities in line with IPSAS 30	• No specific classification rules, but reference to the rudimentary classification requirements of IPSAS 1 for receivables and liabilities • The resulting flexibility allows highlighting the individual focus areas, thus producing the highest level of transparency	• Clear regulations on definition of financing and equity instruments result in a closeness to the payment-oriented, view of the public sector • Corresponding explanations allow an understandable presentation of the definition process for the users	
n/a	n/a	n/a	
Yes	Yes	Yes	
• Definition of financial assets and liabilities, with corresponding examples, allow delimitation of financial assets • However, there is a lack of clarifying definitions on specific items (e.g. tax receivables)	• Possible restrictions of comparability as a result of this scope of design are countered by corresponding disclosures in the notes in line with IPSAS 30	• Comparability secured with clear regulations	
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	

5.3 IPSAS 41: Financial Instruments

5.3.1 Theoretical background

Scope

With a few exceptions, IPSAS 41 is to be applied to all types of financial instruments. Excluded from the scope are topics explicitly regulated in other standards, which include associates and joint ventures to which the regulations of IPSAS 34 to 37 apply and rights and obligations from employee benefit plans to which the regulations of IPSAS 39 apply (IPSAS 41.2).

In line with IPSAS 28.9, a financial instrument is a contract between two entities that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

IPSAS 41 regulates the recognition, derecognition, classification and (re)measurement of financial instruments.

Recognition

Initial recognition

In line with IPSAS 41.10, a financial asset or a financial liability is to be recognised only when the reporting entity becomes party to the contractual provisions of the instrument. Receivables meet the definition of a financial instrument. However, they are not to be recognised at the time the contract is concluded, but only when at least one party has performed under the agreement (IPSAS 41.AG16 (b)).

In line with IPSAS 41.10, at initial recognition the reporting entity classifies a financial asset or a financial liability in line with the regulations described below.

Classification of financial assets

In line with IPSAS 41.39, the classification is based on the management model for financial assets and on the contractual cash flow characteristics of the financial asset (solely payments of principal and interest (SPPI) criterion). The management model test takes into account how the cash flow related to the financial instrument is generated and differentiates between the following possibilities:

— Hold;

— Hold and possibly sell;

— Trade (to generate profits).

The SPPI-criterion is considered to be met when 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.

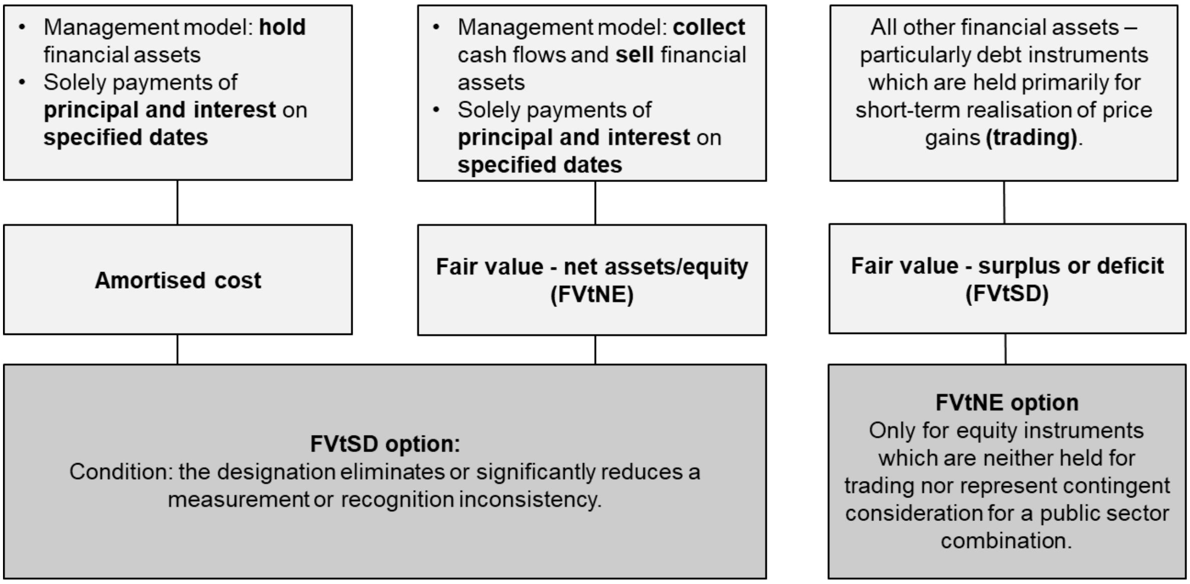
In line with IPSAS 41.39, at initial recognition a financial asset is to be allocated to one of the three following measurement categories:

— amortised cost;

— fair value through net assets/equity;

— fair value through surplus or deficit.

The following diagram provides an overview on the classification of financial assets:

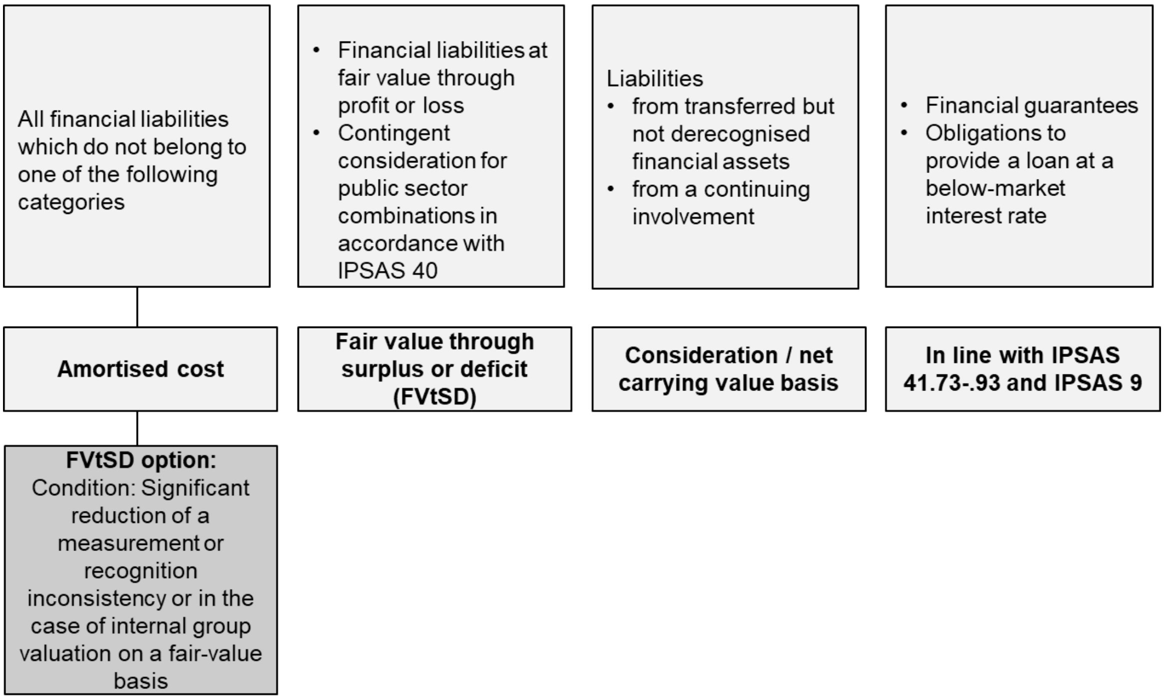


To reduce measurement inconsistencies sometimes referred to as an ‘accounting mismatch’, there is a fair value option. In line with IPSAS 41.44, financial assets that would generally be measured at amortised cost or at fair value though net assets/equity, can be irrevocably designated as measured at fair value through surplus or deficit.

<u>Classification of financial liabilities</u>

In line with IPSAS 41.45, financial liabilities are to be classified as subsequently measured at amortised cost. Financial liabilities held for trading or in connection with derivatives are to be measured in divergence from this. On the basis of the management model, these are to be recognised at fair value through surplus or deficit (IPSAS 41.45 (a)).

The following diagram contains an overview on the classification of financial liabilities:



To reduce measurement inconsistencies or in case a group of financial liabilities is managed, and its performance is evaluated on a fair value basis, the fair value option can be applied. In line with the fair value option, a financial liability can be irrevocably designated as measured at fair value through surplus or deficit (IPSAS 41.46).

Measurement

<u>Measurement at initial recognition</u>

With the exception of trade receivables, at initial recognition financial assets or financial liabilities are to be measured at fair value in line with IPSAS 41.57 – which generally is the transaction price. For financial assets or financial liabilities which are not measured at fair value through surplus or deficit plus or minus transaction costs.

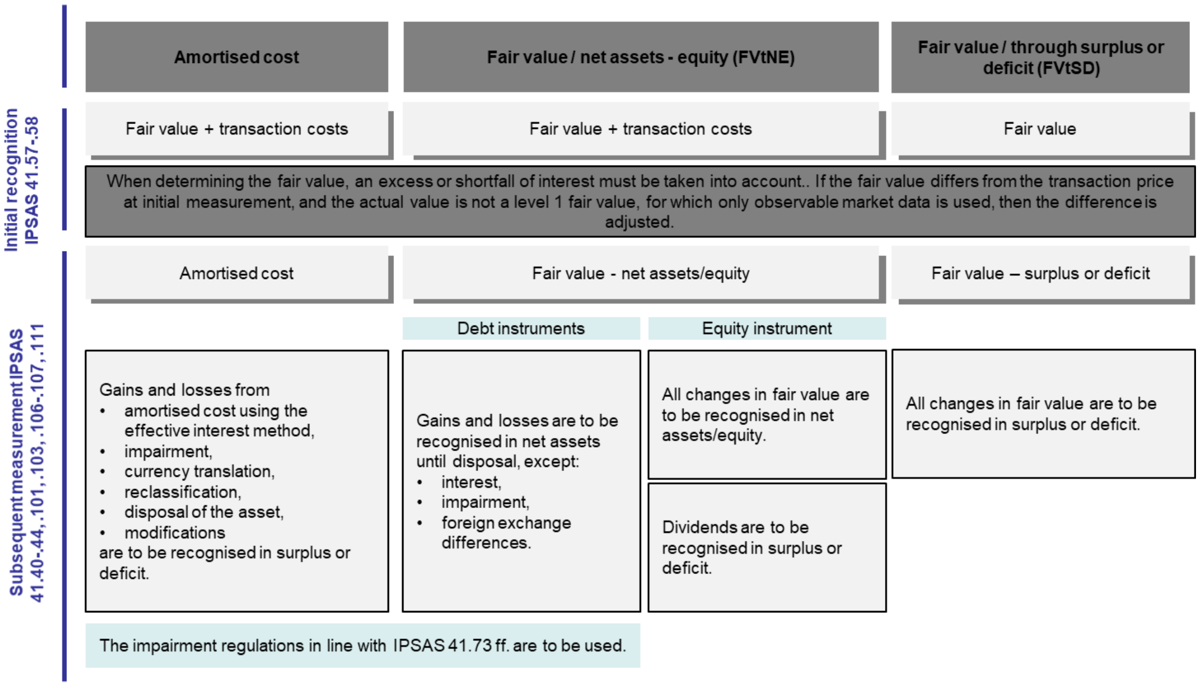
At initial recognition, trade receivables are to be measured at the original invoice amount (IPSAS 41.60). In contrast to the fair value, this amount does not include the credit risk, which is to be recognised only when determining the expected probability of default.

<u>Subsequent measurement</u>

After initial recognition of financial assets and financial liabilities, these are to be measured on the basis of their classification.

In connection with the subsequent measurement, for financial assets at amortised cost the effective interest method is used in line with IPSAS 41.69. When calculating interest income, the effective interest rate is applied to the gross carrying amount of a financial asset.

The following diagram provides an overview of the (subsequent) measurement of financial assets



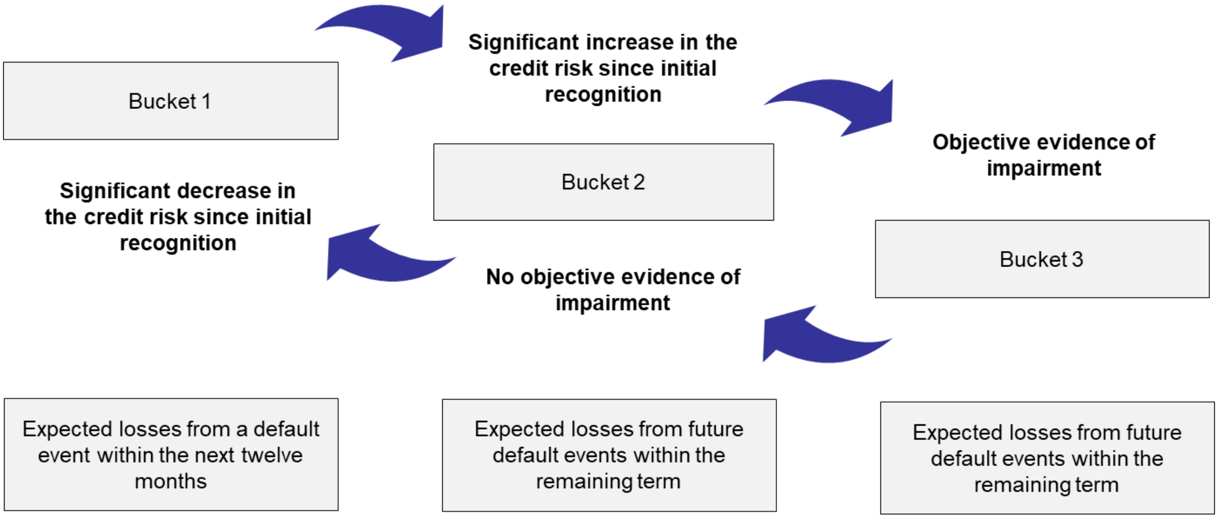
<u>Impairment</u>

The impairment regulations are to be applied to financial assets measured at amortised cost or at fair value though net assets/equity, on lease receivables, loan commitments and financial guarantees (IPSAS 41.73). IPSAS 41 prescribes the expected credit loss model according to which expected credit risks are to be recognised at an early stage.

General approach:

At each reporting date, entities shall recognize a loss allowance or establish a provision at an amount equal to the 12-month expected credit losses or at an amount equal to the lifetime expected credit losses (IPSAS 41.73-.80).

The following diagram shows an overview of the three stages of the general approach:



In line with the **practical expedient for financial assets with a low credit risk** in IPSAS 41.82, it may be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have a low risk of default at the reporting date.

Simplified approach for certain receivables:

In addition, for certain receivables there is the obligation or an option to apply a simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses (ECLs). Thus, it is not necessary that an entity tracks changes to the credit risk, but that the entity recognises a loss allowance at each reporting date on the basis of lifetime ECLs. For trade receivables which are due within twelve months or less, the 12-month ECLs equal the lifetime ECLs (IPSAS 41.87).

Hedge accounting

In line with IPSAS 41.131, there are three types of hedging relationships. An entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship (IPSAS 41.128). All hedged items must be reliably measurable (IPSAS 41.123).

In line with IPSAS 41.122, a hedged item - either a single item or a group of items - can be:

— a recognised asset or a recognised liability;

— an unrecognised firm commitment;

— a forecast transaction; or

— a net investment in a foreign operation.

A synthetic risk position can also be designated as a hedged item. In this case, the hedged item is made up of the original financial instrument and a derivative financial instrument.

The three types of hedging relationships are:

— fair value hedge;

— cash flow hedge;

— hedge of a net investment in a foreign operation.

Derecognition

A financial asset is to be derecognised if the contractual right of the reporting entity to cash flows from this financial asset expires or the entity transfers the financial asset in line with IPSAS 41.15-.16 and the derecognition conditions in line with IPSAS 41.17 are satisfied. Financial liabilities are to be removed from the statement of financial position when the corresponding contractual obligations are discharged, waived, cancelled or expire (IPSAS 41.35).

Modification

Examples of modifications of a financial liability are the subsequent contractual adjustment of the nominal amount, the term, the interest rate and any other change which impacts the contractual cash flows. To account for modifications, the first step is to examine whether the modification leads to the derecognition of the original financial liability. A modification leads to the derecognition of the original financial liability when the contractual terms have been changed substantially. The quantitative assessment of whether a modification is substantial is to be made on the basis of a present value comparison. If the discounted present value of the cash flows under the new terms using the original effective interest rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability, the modification is substantial. In this case, the original liability shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability (IPSAS 41.AG46). However, in the assessment qualitative factors also have to be considered. If the terms have not been changed substantially, the carrying amount of the liabilities is adjusted by the modification effect and amortised at the original interest rate, taking into account the changed contractual terms.

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 41 is applied to all types of financial instruments; excluded however, are topics explicitly regulated in other standards (e.g. interests in other entities, pension from employee benefit plans).	-
Recognition		
	Under certain conditions, recognition of financial instruments in connection with embedded derivatives. (IPSAS 41.49)	In line with HGB, embedded derivatives are not recognised to some extent.

	IPSAS	HGB
Measurement		
Financial assets	With the exception of trade receivables, at initial recognition financial assets are to be measured at fair value – generally the transaction price – plus or minus directly attributable transaction costs. Transaction costs in connection with financial assets at fair value through surplus or deficit are to be recognised directly as an expense. (IPSAS 41.57)	At initial recognition, financial assets – with the exception of derivatives – are measured at cost with consideration of transaction costs.
	Depending on the classification of the financial assets, these are measured at amortised cost applying the effective interest method or at their fair value in net assets/equity or in surplus or deficit. (IPSAS 41.61)	Financial assets are recognised at amortised cost. (Section 253 (1) HGB) Securities classified as current assets are recognised at nominal value or at the lower of amortised cost or market value. (Section 253 (4) HGB)
	At initial recognition, receivables are to be measured at their original invoice amount. As financial assets they are subject to the measurement design on the basis of the required classification. (IPSAS 41.60)	Receivables are measured at cost corresponding to the nominal value of the receivable or the lower fair value. (Section 253 (4) HGB)
Financial liabilities	At initial recognition, liabilities are to be measured at fair value and for subsequent measurement to be classified at amortised cost applying the effective interest method. (IPSAS 41.45) An exception is liabilities in connection with derivatives which are to be measured at fair value through surplus or deficit. (IPSAS 41.45 (a))	Both at initial and subsequent measurement, liabilities are to be recognised at the settlement amount. (Section 253 (1) HGB)

	IPSAS	HGB
Impairment	The impairment regulations are to be applied to financial assets measured at amortised cost or at fair value through net assets/equity, on lease receivables, loan commitments and financial guarantees. (IPSAS 41.73) The expected credit losses are to be determined on the basis of the expected credit loss model. Whether the risk has changed is to be estimated on the basis of past and forward-looking data. For all financial instruments in the scope of the new impairment model, an expected loss is already to be recognised when recognizing the financial asset. (IPSAS 41.75-41.77, 41.85) In line with the low credit risk exemption, it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have a low risk of default at the reporting date. (IPSAS 41.82)	Write-downs on financial assets to fair value are required if a permanent reduction in value is expected. In the event of a reduction in value which is expected to be only temporary, performing a write-down is not permitted. (Section 253 (3) HGB) Write-downs of securities classified as current assets are necessary if impairment occurs as at the reporting date. (Section 253 (4) HGB)
	Receivables can be grouped similar to the procedure in HGB – however, when determining the credit risk, account is to be taken of the forward-looking character. For certain receivables, there is an option to apply a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses. (IPSAS 41.87)	Specific valuation allowances are to be recognised for receivables if the receivables are irrecoverable. Receivables with comparable risks can be combined in groups. Account is taken of risks in individual groups by flat-rate allowance aligned to past experience and identifiable new risks. In line with the principle of lower of cost or market, for receivables write-downs to the fair value are to be made. (Section 253 (4) HGB)
Modifications	In line with IPSAS, both qualitative and quantitative criteria must be examined to determine whether there is a substantial modification. If a substantial modification is identified, the relevant receivable / liability is to be derecognised and a new one recognised. (IPSAS 41.84)	In line with HGB, when adjusting a financial contract, there is a corresponding adjustment of the receivable / liability.

	IPSAS	HGB
Hedge accounting	Fair values – both positive and negative – are to be taken from the balance sheet.	In line with HGB, hedges are to be divided into an effective and an ineffective part. In line with net hedge presentation method, the positive and negative value changes / change in cash flows of hedged item and hedging transactions are compared off-balance and offset against each other. On the other hand, the gross hedge presentation method takes account of compensatory value changes of the hedge risk on the basis of gross accounting of the hedged item and hedge instrument in the balance sheet.
Presentation		
	-	-
Disclosures in the notes		
	-	-

5.3.2 Notable practical insights from implementation

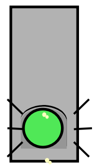
The following insights resulted from implementing the standard:

Measurement of financial assets	The measurement of financial assets assumes the identification of equity and debt instruments and the classification into different measurement categories. In this context, a corresponding classification in line with IPSAS definition criterion was made at account level. This required extensive manual work. There were particular challenges here when accounts contained different measurement categories of financial instruments in line with the IPSAS definition. If IPSAS financial statements are to be prepared on a regular basis, it would be sensible to adjust the chart of accounts in order to achieve an accounting separation of the relevant instruments for the efficient preparation of the consolidated financial statements.
Measurement of financial liabilities	IPSAS 41 demands the use of the effective interest method when accounting for financial liabilities. Implementing this method meant complex manual calculations as there were no relevant systems. In this context, the IPSAS regulations on modifications to financial obligations were not applied. It was evident that if IPSAS financial statements are to be prepared on a regular basis, in this context it is necessary to introduce relevant IT systems in order to achieve a complete preparation of the consolidated financial statements.
Hedge accounting	It was possible to implement the regulations on the appropriate presentation of hedge accounting required by IPSAS 41 only partially and in a simplified manner. This was due not only to the increased complexity of the requirements, but more particularly to the lack of data material which could be used for calculation with an appropriate level of time and costs.
Impairment	In the state of Hesse, impairment to be determined was calculated exclusively on the basis of the low credit risk exemption and in the framework of the simplified approach for certain receivables. For reasons of materiality, the general approach, the implementation of which requires an ongoing check and measurement of the change in the credit risk for financial instruments, was not applied.

5.3.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 41 ensures fit-for-purpose accounting (in part.)

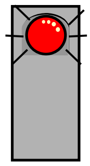


Measurement of financial assets	• The required classification of financial instruments into measurement categories in connection with the corresponding regulation on disclosing carrying amounts and fair values separately by measurement category secured enhanced transparency of the financial statements and the up-to-datedness of the disclosed information. In addition, the required classification in respect to the use of the management model provides insights into internal performance indicators, thus increasing the informational content of the financial statements for the users. Despite the options for classifying financial assets, on the basis of relevant extensive regulations on disclosures in the notes, comparability is ensured in line with IPSAS 30. • IPSAS prescribes a three-stage measurement hierarchy for measuring financial assets at fair value. With each measurement level, the objectifiability of the quantitative informational content declines. However, this is compensated for with the relevant disclosure regulations in line with IPSAS 30, so that adequate data quality is ensured.
Measurement of financial liabilities	• The application of the effective interest method in connection with the measurement of financial liabilities ensures a cost allocation based on source. However, it should be noted that the IPSAS do not provide any concrete specifications on implementing the effective interest method.
Modifications	• The subsequent measurement of loan liabilities required by IPSAS in the case of substantial modifications resulted in enhanced transparency of the information disclosed. Here the understandability of the process to assess whether there is a substantial modification is secured by the disclosures in the notes required in this connection.
Impairment	• The IPSAS require application of the expected credit loss model. This provides the user of the financial statements increased insights into the existing risks of all assets in the scope – e.g. by the obligation to make a forward-looking disclosure of all risks. However, it should be noted here that these are subject to certain judgements, which however are to be explained on the basis of corresponding disclosures in the notes.
Hedge accounting	• In general, the presentation of positive and negative fair values of derivatives in the balance sheet required by the regulations results in enhanced transparency. In addition, the application of hedge accounting ensures a presentation of financial performance on an accrual basis.

IPSAS 41 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Hedge accounting

- The specific regulations of IPSAS 41 on implementing hedge accounting brings with it a strong increase in complexity – both in the application and in respect to the understanding of the reporting requirements. This complexity can result in a restricted verifiability of accounting, which results in questioning whether the relevant requirements are fit for purpose.
- The option to apply hedge accounting in line with IPSAS 41 restricts comparability of the financial statements of reporting entities using different methodologies. What is more, if the regulations on hedge accounting are not applied in line with the corresponding application of the option, a question can be raised about whether the financial performance can be presented on an accrual basis.



b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope No difference	Recognition Classification and initial measurement	Measurement Subsequent measurement of financial assets	 Subsequent measurement of financial liabilities
Transparency, (appropriate) informational content for users and understandability		Yes	Yes	Yes
		• Required classification of financial instruments into measurement categories secures enhanced transparency • Management model provides insights into internal performance indicators	• Regulations on disclosing carrying amounts and fair values separately by measurement category secures the up-to-datedness of the disclosed information	• Value of the liabilities presented correctly • Transparency secured by comparison against the carrying amounts in the notes
Data quality		Yes	Yes	Yes
		• Initial measurement at level of the consideration paid	• Three-stage measurement hierarchy for measuring financial assets at fair value • Objectifiability of the quantitative informational content declines with each measurement level • However, adequate data quality ensured with the relevant disclosure regulations in line with IPSAS 30	• Allocation based on source with application of the effective interest method • BUT: No concrete specifications on application of the effective interest method
Comparability		Yes	Yes	Yes
		• Comparability of data ensured, despite the options for classifying financial assets on the basis of relevant extensive regulations on disclosures in the notes in line with IPSAS 30	• Comparability of data ensured, despite the options of classifying financial assets on the basis of relevant extensive regulations on disclosures in the notes in line with IPSAS 30	• Comparability secured with clear regulation
Summary	IPSAS offers fit-for-purpose accounting	IPSAS offers fit-for-purpose accounting	IPSAS offers fit-for-purpose accounting	IPSAS offers fit-for-purpose accounting
Conclusion				• Explanation on the effective interest rate method desirable.
Comments / Information				• In standard operations, IT system to account for liabilities necessary.

Measurement			Presentation	Disclosures in the notes
Modifications	**Impairment**	**Hedge accounting**	**-**	**-**
Yes	Yes	No		
• Enhanced transparency by subsequent measurement of loan liabilities in the case of substantial modifications • Understandability (differentiation between substantial and non-substantial modifications) secured by disclosures in the notes in line with IPSAS 30	• With the obligation to make forward-looking disclosures of all risks, expected credit loss model allows increased insights into the existing risks of all assets in the scope	• Enhanced transparency by presentation of positive and negative fair values of derivatives in the balance sheet • Complexity of regulations results in lower informational content for the users		
Yes	No	Yes		
• Input data for applying the effective interest method generally fully known	• Forward-looking disclosures in the context of the expected credit loss model require estimates	• Applying the regulations on hedge accounting ensures financial performance can be presented on an accrual basis		
Yes	Yes	No		
• Comparability secured with clear regulation	• Comparability secured with clear regulation • Judgement when determining prospective corrections countered on the basis of detailed disclosures	• Option exists as to whether to apply hedge accounting • When regulations on hedge accounting are not applied, questionable whether the financial performance can be presented on an accrual basis		
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**		
		• From a theoretical perspective, mandatory application of the regulations on hedge accounting sensible		
• IPSAS regulations on modifications to financial obligations not applied due to extensive manual work in connection with the lack of IT systems.	• For reasons of materiality, impairment to be determined was calculated exclusively on the basis of the low credit risk exemption and in the framework of the simplified approach for certain receivables.	• It was possible to implement the regulations on the appropriate presentation of hedge accounting only partially and in a simplified manner.		

5.4 IPSAS 30: Financial Instruments: Disclosures

5.4.1 Theoretical background

Scope

With a few exceptions, IPSAS 30 is to be applied to all types of financial instruments (IPSAS 30.3). Application is excluded for topics regulated explicitly in other standards, such as associates or joint ventures, for which the regulations of IPSAS 34-36 are to be applied and rights and obligations from employee benefit plans for which the regulations of IPSAS 39 are to be applied (IPSAS 30.3).

IPSAS 30 should not be viewed in isolation, but in conjunction with the corresponding standards IPSAS 28 *Financial Instruments: Presentation* and IPSAS 41 *Financial Instruments*.

Disclosures in the notes

The disclosure requirements resulting in connection with accounting for financial assets and liabilities are specified in IPSAS 30. According to IPSAS 30, disclosures on the relevant balance sheet items, on the relevant items in the statement of financial performance and further disclosures on the nature and extent of the risks resulting from the financial instruments (both on- and off-balance) are required. In general, disclosures under IPSAS 30 can be divided into disclosures resulting from recognised financial instruments and disclosures resulting from disclosure obligations of (potential, not necessarily to be recognised in line with IPSAS 41) risks.

The disclosures in the notes on the recognised financial instruments can be divided into three sub-categories:

— General disclosures in the notes on financial instruments which can include the carrying amounts which may also be stated in the balance sheet, recognition of financial instruments through surplus or deficit and significant accounting policies (IPSAS 30.11, 30.24-.25);

— More specific regulations on financial instruments, e.g. relating to financial instruments measured at fair value, reclassification, derecognition, collateral, financial instruments in combination with derivatives, credit losses and defaults or hedging transactions (IPSAS 30.12-.36);

— Information on concessionary loans which include a reconciliation of the carrying amounts at the beginning and end of the period, the nominal amount of the loan at the end of the period, the purpose and the terms of the various types of loans and the underlying valuation assumptions (IPSAS 30.37).

For each category of financial asset and financial liability, the carrying amount is to be disclosed (IPSAS 30.11). In addition, for each category of financial asset and financial liability, the fair value is to be provided in such a way that a comparison against the corresponding carrying amounts is possible. Accounting at fair value also requires the disclosure of a hierarchy level at which measurement at fair value takes place, the valuation technique, and which measurement uncertainties occurred in the process (IPSAS 30.29-36).

Disclosures in the notes resulting from disclosure obligations for potential risks to be recognised (not necessarily in line with IPSAS 41) cover information on credit, liquidity and market risks. These disclosures must enable the user of the financial statements to understand the nature and extent of the risks arising from financial instruments to which the entity is exposed. In addition, the reader must be placed in a position of understanding how these risks are managed and mitigated. For this purpose, these disclosures are based on the information provided internally to key management personnel (management approach). In addition to the qualitative disclosures on the scope, cause and risk management measures, these disclosures are to be supplemented by quantitative information (IPSAS 30.40-.42).

For credit risks, disclosures are to be made on the level of the maximum exposure (without taking account of collateral), on financial assets which are past due or credit-impaired on the reporting date and on collateral held. In this connection, disclosures are to be made how credit risk management practices relate to the recognition and measurement of expected credit losses. Also necessary are disclosures on the methods, assumptions and information used for the measurement of expected credit losses separated by the different approaches for calculating expected credit losses (general approach, practical expedient for financial assets with a low credit risk, simplified approach for certain receivables) (IPSAS 30.42A).

In addition, it is necessary to provide disclosures on hedged items and hedging transactions in connection with hedging the fair value, hedging cash flows or net investments in a foreign operation. This includes disclosures on the extent to which hedging transactions of an entity can impact the amount, timing and uncertainty of its future cash flows (IPSAS 30.25A-28F).

To determine the quantitative liquidity risk of an entity, in line with IPSAS 30.46 it is necessary to present a maturity analysis for the derivative and non-derivative financial liabilities. In doing so, it is necessary to describe the liquidity management measures implemented at the entity. In addition, to assess the market risk it is necessary to prepare and disclose a sensitivity analysis for each type of market risk the entity is exposed to. If the entity prepares a value-at-risk analysis, this can be used and disclosed in the place of the sensitivity analysis (IPSAS 30.47-.49).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 30 is applied to all type of financial instruments, excluded however are topics specifically regulated in other standards e.g. interests in other entities, pension topics or partly insurance contracts.	-
Recognition		
	-	-
Measurement		
	-	-
Presentation		
	-	-
Disclosures in the notes		
Categories of financial assets and liabilities	Disclosure of the carrying amounts and fair values of financial assets and financial liabilities separated by measurement category, including their stage in the fair value hierarchy. (IPSAS 30.11)	-

	IPSAS	HGB
Financial assets or financial liabilities recognised at fair value in surplus and deficit	Disclosures on financial assets and liabilities designated as measured at fair value in surplus or deficit. This includes the maximum exposure of the financial assets and the amount by which the fair value of the financial assets or the liability has changed during the reporting period and on a cumulative basis, to the extent this is due to changes in the credit risk. (IPSAS 30.12 ff.) Disclosures on financial investments in equity instruments which are designated as measured at fair value in net assets/equity. This includes information about which financial investment is referred to and the reasons for the presentation alternative. (IPSAS 30.14A ff.) Disclosures on reclassification of financial assets. (IPSAS 30.15A ff.)	-
Offsetting financial assets and financial liabilities	Measurement of the (potential) impact of netting arrangements on the asset situation. This includes not only the impact of offsetting in connection with recognised financial instruments, but also the possible impact in connection with financial instruments subject to enforceable master netting arrangements. (IPSAS 30.17A-17F)	-
Collateral	Disclosures on the carrying amounts of financial assets pledged as collateral for liabilities or contingent liabilities and disclosures on the contractual conditions for this collateral. (IPSAS 30.18-.19)	-
Allowance account for credit losses	Disclosures on the carrying amount of financial assets measured at fair value through net assets/equity. (IPSAS 30.20A)	-
Compound financial instruments with multiple embedded derivatives	Relevant disclosures if an entity issues a financial instrument which contains both a debt and an equity component and the instrument has multiple embedded derivatives. (IPSAS 30.21)	-

	IPSAS	HGB
Defaults and breaches	Disclosures on details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable. (IPSAS 30.22)	-
Items of revenue, expense, gains or losses	Disclosures of net gains or net losses from financial instruments separated by measurement categories, disclosure of the total interest revenue and disclosure of the fee revenue from financial assets or liabilities recognised as revenue or expense. (IPSAS 30.24)	-
Accounting policies	Disclosure on accounting policies used in the preparation of the financial statements and other measurement bases. (IPSAS 30.25)	Disclosures on accounting policies used for the items of the consolidated balance sheet and the consolidated income statement (Section 313 (1) sentence 3 No. 1 HGB)
Hedge accounting	Disclosures on the risk management strategy and risk management for hedging per risk category and disclosures on the impact of hedging activities on future cash flows and on the statement of financial position, statement of financial performance and statement of changes in net assets/equity. (IPSAS 30.25A ff.) Description of the hedging instruments used for hedging risk, as well as disclosures on the economic relationship between the hedged item and the hedging instrument, the determined hedge ratio and the hedge ineffectiveness. (IPSAS 30.26 A ff.) Disclosures of quantitative information on hedging instruments and hedged items per risk category, including carrying amounts, totals, hedging gains or losses and ineffectiveness recognised. In addition, reconciliation and aggregation of net assets/equity by risk category. (IPSAS 30.28A)	Disclosures of the amounts of assets, liabilities, executory contracts and expected transactions to hedge which risks are included in which types of valuation units and the amount of the risks hedged in valuation units. (Section 254 HGB in line with Section 314 (1) No. 15 HGB) Disclosure on the scope and nature of each category of derivative financial instruments including the major conditions which can influence the amount, timing and certainty of future cash flows. (Section 314 (1) No. 12 HGB) Disclosure why, to what extent and for which period opposing value changes or cash flows are expected to offset each other, including an explanation of the method of determination and an explanation of the highly likely transactions which are included in the valuation unit. (Section 254 HGB in line with Section 314 (1) No. 15 HGB) For derivative financial instruments not recognised at fair value, disclosures on the nature and the scope, the fair value to the extent they can be reliably determined as well as the carrying amount and reasons if the fair value cannot be reliably determined. (Section 314 (1) No. 11 HGB, IDW RS HFA 35.94)

	IPSAS	HGB
Option to designate a credit exposure as measured at fair value through surplus or deficit	If an 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, a reconciliation is to be disclosed of each of the nominal amounts and the fair values at the beginning and at the end of the period and the gain or loss recognised. (IPSAS 30.28G)	-
Fair value	Disclosure of the fair value for each individual category of financial assets and liabilities and the hierarchy level in making the measurements. (IPSAS 30.29 ff.)	Disclosures on the assumptions underlying the determination of the fair value for financial instruments measured at fair value (Section 314 (1) No. 12 HGB)
Concessionary loans	Qualitative and quantitative disclosures on concessionary loans including a reconciliation of the loans at the beginning and end of the period, the fair value adjustment on initial recognition and the purpose and terms of the various types of loan. (IPSAS 30.37-.37A)	-
Nature and extent of risks arising from financial instruments	Qualitative and quantitative disclosure of information which makes it possible to assess the nature and extent of the risks arising from the financial instruments and disclosures on risk management. Risks include credit risk, liquidity risk and market risk. Disclosures on risk type generally include disclosures on the scope and cause of risks, on objectives and processes to manage risks and disclosure on summarised quantitative data relating to the risks. (IPSAS 30.38 ff.)	Cf. disclosures on hedge accounting

	IPSAS	HGB
Credit risk	Disclosures how risk management practices relate to recognition and measurement of expected credit losses and disclosures on the methods, assumptions and information used for the measurement of expected credit losses separated by the different approaches for calculating expected credit losses (general approach, practical expedient for financial assets with a low credit risk, simplified approach for certain receivables). This includes disclosures on how it is determined that the credit risk has increased significantly since initial recognition, on the definition of default, how instruments are grouped, how credit-impairment is determined and the write-off policy. (IPSAS 30.42A)	-
	Disclosures on the gross carrying amounts of the financial assets and disclosures of the credit risk for loan commitments and financial guarantees for each credit risk rating grade separated by the different classes of financial instrument, so that the credit risk position of an entity can be assessed and significant concentrations of these default risks can be understood. (IPSAS 30.42M)	-
Quantitative and qualitative information about amounts arising from expected credit losses	Disclosure of quantitative and qualitative information so that the amounts arising from expected credit losses can be assessed, including disclosures of a reconciliation of the opening and closing balance of the loss allowance, showing separately the different approaches for determining the expected credit losses. In addition, disclosure of the amount which best reflects the maximum exposure and the collateral held in order to understand the impact of collateral on the level of the expected credit losses. (IPSAS 30.42H ff.)	-
Collateral and other credit enhancements obtained - liquidity risk	Disclosure of a maturity analysis for non-derivative and derivative financial liabilities and a description of how the inherent liquidity risk is managed. (IPSAS 30.46)	Disclosure of a maturity structure of liabilities (Section 285 (1) HGB)

	IPSAS	HGB
Collateral and other credit enhancements obtained - market risk	Disclosure of a sensitivity analysis for each type of market risk to which the entity is exposed, showing how changes in the relevant risk parameters would have impacted surplus or deficit and net assets/equity. (IPSAS 30.47)	-
Transferred financial assets that are not derecognised in their entirety	Disclosures on transferred financial assets that are not derecognised in their entirety, including the nature of the transferred asserts and the nature of the risks and rewards resulting from further ownership. (IPSAS 30.49D)	-
Transferred financial assets that are derecognised in their entirety	Disclosures on transferred financial assets that are derecognised in their entirety in which the entity has a continuing involvement, including the carrying amount and the fair value of the relevant assets and liabilities and the maximum exposure from the continuing involvement. (IPSAS 30.49E ff.)	-

5.4.2 Notable practical insights from implementation

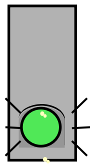
The following insights resulted from implementing the standard:

General disclosures on financial instruments	Satisfying the disclosure obligations required for IPSAS 30 – both at initial recognition and in subsequent periods – brings with it a high level of (manual) work. This is due to the large range and level of detail required in the disclosures and is exacerbated considerably by the lack of necessary systems and processes. If IPSAS financial statements are to be prepared on a regular basis, it would be necessary to adjust the relevant systems and processes to ensure efficient preparation of the notes.
Disclosures on hedge accounting	In some places the disclosures in line with IPSAS 30 on applying the hedge accounting regulations were implemented only in a simplified manner. This was due not only to the increased complexity, but more particularly to the lack of data material which could be used for calculation with an appropriate level of time and costs.

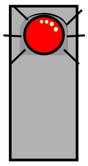
5.4.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 30 <u>ensures</u> fit-for-purpose accounting (in part.)

General disclosures on financial instruments	• The disclosures required for public-sector reporting in line with IPSAS 30, which have an unaccustomed level of detail, allow a comprehensive overview of the financial risks of the entity and provide a high level of transparency. • In general – with the exception of disclosures when applying hedge accounting – the disclosures allow an informational gain, the complexity of which seems appropriate for the users and which increases the comparability of financial statements. At the same time, specific regulations require an interpretation which can be connected with judgements of the user (e.g. disclosures on sensitivities).	

IPSAS 30 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Disclosures on hedge accounting	• The required disclosures on hedge accounting required by IPSAS 30 result in a strong increase in complexity, both in the application and in respect to understanding the reporting requirements. It must be taken into account here that as such derivative instruments are complex transactions, the presentation of which requires a certain level of complexity and which presupposes a certain understanding of the subject matter. At the same time, excessive complexity in the nature and scope of the presentation can result in a reduction of the verifiability of the disclosed explanations, which results in questioning whether the relevant requirements are fit for purpose.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope -	Recognition -
Transparency, (appropriate) informational content for users and understandability		
Data quality		
Comparability		
Summary		
Conclusion		
Comments / Information		

Measurement	Presentation	Disclosures in the notes
-	-	Extended disclosures in the notes
		No
		• Increased transparency with a wide range of detailed disclosures and application of the management approach • High informational content, as disclosures are largely understandable (e.g. risk management) • However, disclosures on hedge accounting are very complex to prepare and difficult to understand
		Yes
		• Additional determination of information required for the disclosures in the notes; these can be observable market data, but also data whose generation is subject to judgement (e.g. when determining sensitivities)
		Yes
		• Increased transparency with a wide range of detailed disclosures, but in parts design allows judgement (e.g. when disclosing sensitivities).
		IPSAS offers fit-for-purpose accounting

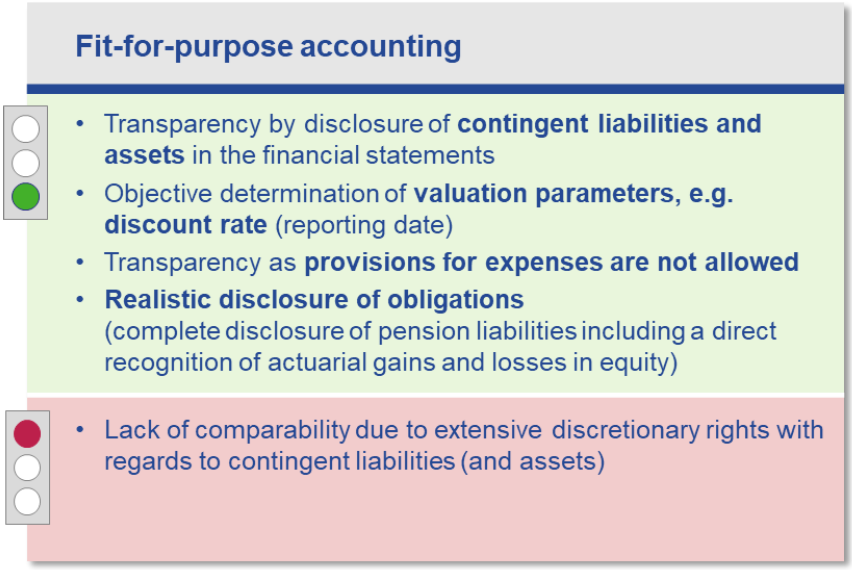
6. Provisions

6.1 Summary

This chapter assesses the following IPSAS which are to be applied in accounting for provisions:

IPSAS Standard
IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets
IPSAS 39: Employee Benefits
IPSAS 42: Social Benefits

To summarise, it should be noted that the relevant IPSAS for accounting for provisions, as described above, are predominantly assessed as fit for purpose. The key positive and negative factors which are the basis of this assessment are shown in the diagram below.

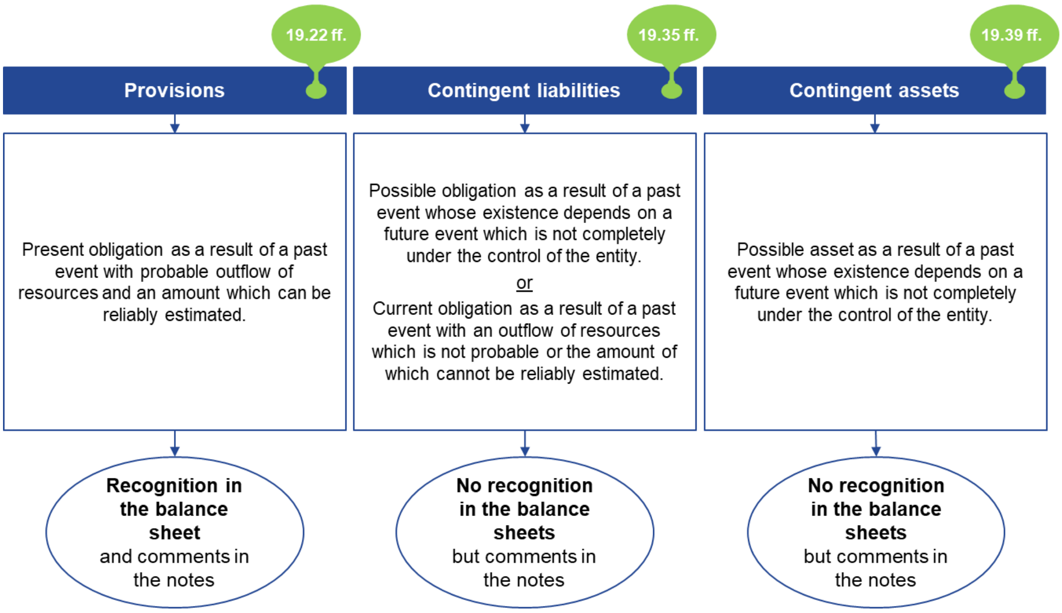


6.2 IPSAS 19: Provisions, Contingent Liabilities, Contingent Assets

6.2.1 Theoretical background

Scope

IPSAS 19 regulates the accounting and measurement of provisions, contingent liabilities and contingent assets (IPSAS 19.1) which are defined as follows:



Recognition

Provisions

A provision is a liability uncertain only in timing or amount. If the following criteria in line with IPSAS 19.22 are satisfied, a provision is to be recognised:

- a present obligation as a result of a past event,
- probability of an outflow of resources and
- reliable estimate of the amount.

Provisions serve to secure appropriate timing of expenses and income in line with their economic allocation. Obligations may be recognised only when they result from past events, i.e. all expenses are to be recognised which are economically allocated to the past period or previous periods, but which result in payments only in the future (IPSAS 19.21). In line with IPSAS 19, the term liability is restricted purely to third-party obligations. Thus, provisions are to be recognised only in relation to an obligation to a third party (IPSAS 19.28).

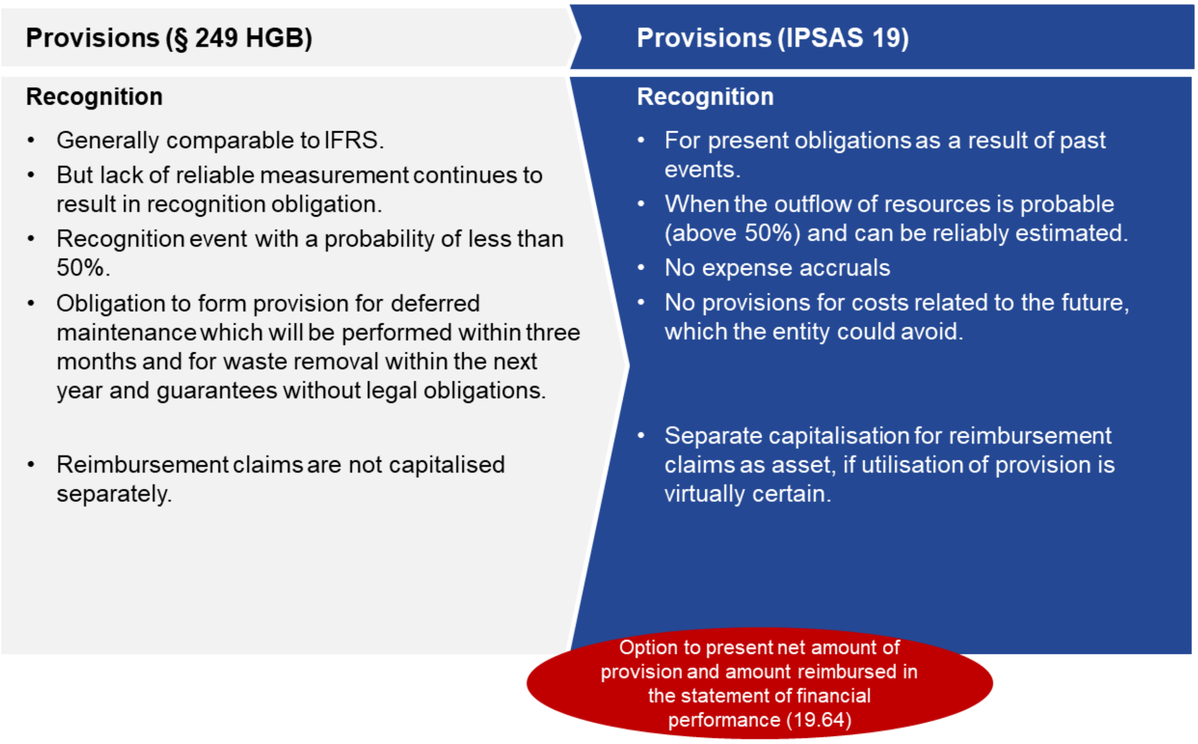
Probability of an outflow of resources

In line with IPSAS, a provision may be recognised for probable outflow of resources with an economic cause in previous periods only when, if taking account of all available evidence, it is more likely than not that an outflow of resources will take place. The probability of an outflow of resources must be more than 50%, whereby the outflow of resources for any one item may be small as the probability that an outflow will be required in settlement is determined by considering the class of obligations (e.g. guarantee provisions) as a whole. (IPSAS 19.31-.32).

Reliable estimate of the amount

Reliability of the measurement represents a recognition criterion. Estimates are permitted (IPSAS 19.33).

The following diagram shows the recognition criteria for provisions in line with HGB and IPSAS:



Contingent liabilities

Contingent liabilities are understood as all obligations which are not recognised as a liability or a provision due to not meeting or not yet meeting the recognition criteria (IPSAS 19.21). Contingent liabilities are not recognised on the balance sheet (IPSAS 19.35), but explained in the disclosures in the notes if the possibility of an outflow of resources is not remote (IPSAS 19.36).

Contingent assets

Contingent assets are possible assets 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 (IPSAS 19.18). As contingent liabilities, contingent assets may not be recognised on the balance sheet (IPSAS 19.39) but are to be explained in the notes when the inflow of economic benefits is probable (IPSAS 19.42).

Measurement

In the context of initial measurement in line with IPSAS 19.44, provisions are to be recognised using the best estimate of the settlement amount. In line with IPSAS 19.45, the figure is the amount required to settle the present obligation on the reporting date.

A suitable method is to be used for measurement. If the provision involves a large population of items in the measurement of risk, the obligation is estimated by weighting all possible outcomes by their associated probabilities ("expected value method") (IPSAS 19.47). In measuring a single obligation, the most probable event generally represents the best estimate (IPSAS 19.48).

In determining the settlement amount, account is to be taken of future price trends in the form of price increases or cost reductions, where there is sufficient objective evidence that they will occur (IPSAS 19.58 ff.). In addition, where the effect of the time value of money is material, the amount of the provision to meet the obligation is to be discounted to the present value (IPSAS 19.53 ff.).

If it is possible that an entity will be reimbursed its own obligation by another party (e.g. reimbursement of an insurance in the case of compensation payments), then in line with IPSAS 19.63 such reimbursement is to be recognised separately from the provision as an asset if it is virtually certain that the reimbursement will be received if the obligation is settled. There can be different probabilities for recognising the reimbursement payment and the provision. The reimbursement payment is to be specifically recognised, only if the outflow of resources related to the provision is virtually certain. The capitalised amount may not be higher than the provision. In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognised for reimbursement (IPSAS 19.64).

Provisions are to be remeasured at each subsequent reporting date (IPSAS 19.69). Similar to the initial measurement, account is again to be taken of all necessary parameters and conditions. Generally, changes in measurement are to be recognised in surplus or deficit. If the reason for a provision no longer exists, the provision is to be reversed. On the other hand, if the uncertain obligation becomes a certain payment obligation, there is a reclassification in liabilities. If a provision is used, the payments are to be offset only against the provisions recognised for this purpose (IPSAS 19.71).

Presentation

IPSAS 19 does not contain any specific presentation rules. In line with IPSAS 1.80, provisions are to be classified as current and non-current liabilities. In addition, IPSAS 1.88 specifies the separate recognition for provisions for employee benefits and other provisions.

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
Provisions	Present obligation which is uncertain in timing or amount, an outflow of resources is probable and the amount can be reliably measured. (IPSAS 19.18-.22)	Liabilities uncertain in respect to timing or amount. (Section 249 HGB)
Contingent liabilities	Present obligation, which is uncertain in timing or amount, but an outflow of resources is not probable or the amount cannot be reliably measured. <u>or</u> Possible obligation whose existence depends on the occurrence or non-occurrence of an event which the entity cannot influence. (IPSAS 19.18-.21) In line with IPSAS, to be delimited from contingent liabilities are financial guarantees within the meaning of IPSAS 41 which could give rise to commitments in line with Section 251 HGB.	Contingent liabilities are not explicitly regulated in HGB. They contain commitments in line with Section 251 HGB. These are liabilities from: - issuance and transfer of bills of exchange; - guarantees, bill and check guarantees; - warranties; - providing collateral for third-party liabilities Explanation of the commitments in the notes
Contingent assets	Possible asset depending on the occurrence of an event not controlled by the entity. (IPSAS 19.18)	

	IPSAS	HGB
Recognition of provisions (general)		
Obligation (to third parties) / expense accruals	Only recognition of obligations to third parties Prohibition of expense accruals (internal obligation) (IPSAS 19.28)	General recognition of obligations to third parties Exception: Expense accruals possible only for deferred expenses for maintenance not performed in the financial year and performed in the first three months of the subsequent year and for waste removal. (Section 249 HGB)
Relationship to past	Obligation must result from a past event (IPSAS 19.22 and 19.25 ff.)	Obligation must be legally incurred and/or caused economically (Section 252 (1) No. 4, 5 HGB))
Probability of utilisation	Probability of the outflow of resources must be greater than 50% ("more likely than not") (IPSAS 19.22 and 19.31 ff.)	Utilisation seriously anticipated (Section 252 (1) No. 4 HGB)
Reliable estimate of the amount	A reliable estimate can be made of the amount of the obligation (IPSAS 19.22 and 19.33)	Determination of the necessary settlement amount also a prerequisite for recognition according to national commercial law, possibly with supplementary explanation in the notes
Measurement of provisions (general)		
Settlement amount	(Best estimate of the) expenditure required to settle the obligation (IPSAS 19.44 ff.)	Necessary settlement amount in line with prudent business judgement (amount required at settlement date) (Section 253 (1) HGB)
Discounting	Discounting of long-term obligations (generally more than one year) at market interest rate (IPSAS 19.53 ff.)	With a term longer than one year, discounting over remaining term at the relevant average market interest rate Calculation and monthly announcement of the market interest rate by the Deutsche Bundesbank (Section 253 (2) HGB)

	IPSAS	HGB
Trend	At measurement, future price and cost level to be considered (IPSAS 19.58 ff.)	At measurement, future price and cost increases to be considered (Section 253 (1) HGB)
Reimbursement	Reimbursement is to be recognised as an asset when receipt is virtually certain (gross accounting). (IPSAS 19.63) Expenses for establishing a provision can be recognised in the statement of financial performance on a net basis after deduction of the reimbursement (option). (IPSAS 19.64)	Reimbursement amounts are to be capitalised as assets if they have been recognised or legally determined on the reporting date (gross accounting). Recognition reducing the provision is permitted only in connection with uncertain liabilities and only when they succeed the obligation in a binding fashion (net accounting). (Section 246 (2) sentence 1 HGB) Presentation of income and expenses in line with the accounting presentation.
Recognition and measurement of special provision items		
Dismantling / recultivation provisions	Recognition and measurement of the dismantling / recultivation obligation as provision; and Recognition and measurement of the obligation as part of the cost of the relevant asset which is depreciated (IPSAS 19.27 in connection with 17.30c)	Recognition and measurement of bucket provisions for dismantling / recultivation; no consideration in the context of cost (Section 249 (1) HGB, Section 253 HGB)
Provisions for onerous contracts	Recognition and measurement of a present obligation from an onerous contract as provision Before a separate provision is established for an onerous contract, recognition of an impairment loss on assets dedicated to the contract (IPSAS 19.76-.80)	Recognition and measurement of future not yet realised losses from executory contracts as provision in the case of performance overhang; (Section 249 HGB) Before a separate provision is established for an executory contract, recognition of an impairment loss on assets dedicated to the contract
Restructuring provisions	Recognition of restructuring provisions if they fall under the general recognition criteria for provisions and satisfy the additional, specific conditions for recognising restructuring provisions. Measurement in line with general regulations on provisions (IPSAS 19.81 ff.)	Recognition and measurement of restructuring provisions in line with general principles

	IPSAS	HGB
Presentation		
Classification by type of provision	Disaggregated into provisions for employee benefits and other items (IPSAS 1.88)	Separated by provisions for pensions and similar obligations, tax provisions and other provisions (Section 266 (3) HGB)
Classification by term	Classification into non-current and current (IPSAS 1.80)	No classification by maturity intended
Accruals	Accruals (e.g. for outstanding invoices) to be recognised under liabilities, no separate recognition of deferred income (IPSAS 19.19b)	Separate recognition of deferred income (Section 250 HGB)
Disclosures in the notes		
Provisions	Statement of changes in provisions (IPSAS 19.97)	Statement of changes in provisions (Section 285 (12) HGB)
Contingent liabilities	Contingent liabilities are to be recognised in classes, the financial effect is to be estimated, uncertainties in respect to amount and maturity as well as possible reimbursement claims are to be disclosed. (IPSAS 19.100 ff.) No recognition of a contingent liability if reduction in assets is remote. (IPSAS 19.24 (b))	Disclosure of contingencies within the meaning of Section 251 HGB, which in line with IPSAS represent both contingent liabilities as well as financial guarantees to be delimited from contingent liabilities in line with IPSAS 41 and which allow the possibility of utilisation, are explained in the notes as other financial obligations. (Sections 251, 285 No. 3 HGB, Section 268 (7) HGB)
Contingent assets	Disclosure of contingent assets with their financial effect where practicable. (IPSAS 19,105)	--

6.2.2 Notable practical insights from implementation

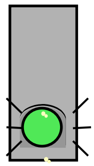
The following insights resulted from implementing the standard:

Definition of contingent assets and liabilities	In IPSAS 19, the lack of explicit regulations on identifying and delimiting items which are to be classified as contingent assets and liabilities exacerbate securing the completeness of the disclosures and a delimitation to other contractual and financial obligations which must be disclosed.
Selection of an appropriate discount rate	The value of the provisions recognised can be considerably influenced by the discount rate used. The provision of additional guidelines to determine the relevant discount rate can result in improved comparability.
Recognition of provisions	The correct breakdown of provisions into a current and non-current share involves a high level of manual work, both at initial and at subsequent application.

6.2.3 Fit-for-purpose accounting by applying IPSAS?

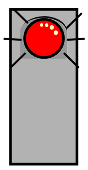
a. Summary of assessment

IPSAS 19 ensures fit-for-purpose accounting (in part.)



Disclosure of contingent assets and liabilities	• With disclosures in the notes on items which do not meet the conditions for liabilities/provisions (for contingent liabilities) and receivables (contingent assets), the user obtains a deeper insight into the asset situation. This results in the assessment that the standard ensures enhanced transparency in this respect.
Recognition of obligations	• Recognising liabilities exclusively for external obligations and the concomitant prohibition of accounting for internal obligations (e.g. for expense accruals) strongly restricts the exercise of judgement, resulting in securing a high level of transparency.
Settlement amount	• With reference of the standard to the “best estimate of the settlement amount”, provisions are determined at the most probable value, resulting in reinforcing an appropriate presentation of the financial position and results. At the same time, in this connection measurement takes place on the basis of objectifiable and reliable information.
Discounting	• Discounting non-current obligations at market interest rates ensures an adequate accrual basis for expenses and ensures a true and fair view of the financial position and results on the reporting date, especially on the basis of objectifiable interest parameters.
Reimbursement	• The mandatory gross presentation of reimbursement and the related provisions secures a transparent presentation of the circumstances/the relevant assets and liabilities. In addition, the relevant disclosures in the notes on the connection between the two balance sheet positions make it possible to provide complete transparency.
Dismantling / recultivation provisions	• The mandatory recognition of dismantling/recultivation obligations results in a complete presentation of assets (capitalisation of cost) and liabilities (dismantling obligation), because recognising provisions for dismantling obligations results not only in a corresponding full capitalisation of the assets, but also the distribution of the dismantling/recultivation costs on an accrual basis over the contract period.

IPSAS 19 does not ensure fit-for-purpose accounting (in part.)



Contingent assets and liabilities	• The assessment whether and which facts are to be disclosed in the context of contingent assets and liabilities is highly dependent on judgement. This limits comparability of the financial statements of various reporting entities.
Settlement amount	• Determining the settlement amount requires some decisions based on judgement. As a result, in this context, the comparability of reporting entities can be restricted.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope Contingent assets and liabilities	Recognition (Internal) obligations	Measurement Settlement amount	 Discounting
Transparency, (appropriate) informational content for users and understandability	Yes	Yes	Yes	Yes
	• Deeper insight into the financial position possible by disclosures on contingent assets and contingent liabilities	• Recognising only third-party obligations; prohibition of recognition for internal obligations and thus restriction of judgement	• Determining provisions at the most probable value as best estimate of the settlement amount results in a correct recognition of the financial position and results	• Discounting at market interest rates secures an correct view of the financial position and results as at the reporting date • Discounting at market interest rates secures presentation of expenses in line with the accrual principle
Data quality	n/a	Yes	Yes	Yes
		• External obligation with determination of an amount which cannot be reduced	• The most probable value is determined on the basis of objectifiable and reliable information	• Objectifiable interest parameters
Comparability	No	Yes	No	Yes
	• Whether and which facts are to be disclosed in the context of contingent assets and liabilities is dependent on judgement	• Comparability secured with clear regulations	• At the same time, judgement on determining the settlement amount	• Comparability secured with clear regulations
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion	• More specific information on the regulations desirable			• Provision of additional guidelines to determine the relevant discount rate can result in improved comparability
Comments / Information				

Measurement		Presentation	Disclosures in the notes
Reimbursement	**Dismantling / recultivation provisions** (cf. IPSAS 17)	**For presentation according to current and non-current assets cf. IPSAS 1**	**With the exception of disclosure obligations in connection with contingent assets and contingent liabilities, no significant differences**
Yes	Yes		Yes
• Transparent presentation with gross presentation of reimbursement and the related provisions • Creation of connection between the balance sheet items (possibly in the notes)	• Recognition requirement for PPE and mandatory recognition of costs of dismantling / removal results in a complete presentation of assets (consistent assets and liabilities)		• Cf. scope
Yes	Yes		n/a
• Data quality requires correct separate measurement of assets and liabilities	• Allocation of dismantling / recultivation costs on an accrual basis		
Yes	Yes		Yes
• Comparability secured with clear regulations	• Comparability secured with clear regulations		• Cf. scope
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
		• The correct breakdown of provisions into a current and non-current share involves a high level of manual work	

6.3 IPSAS 39: Employee Benefits

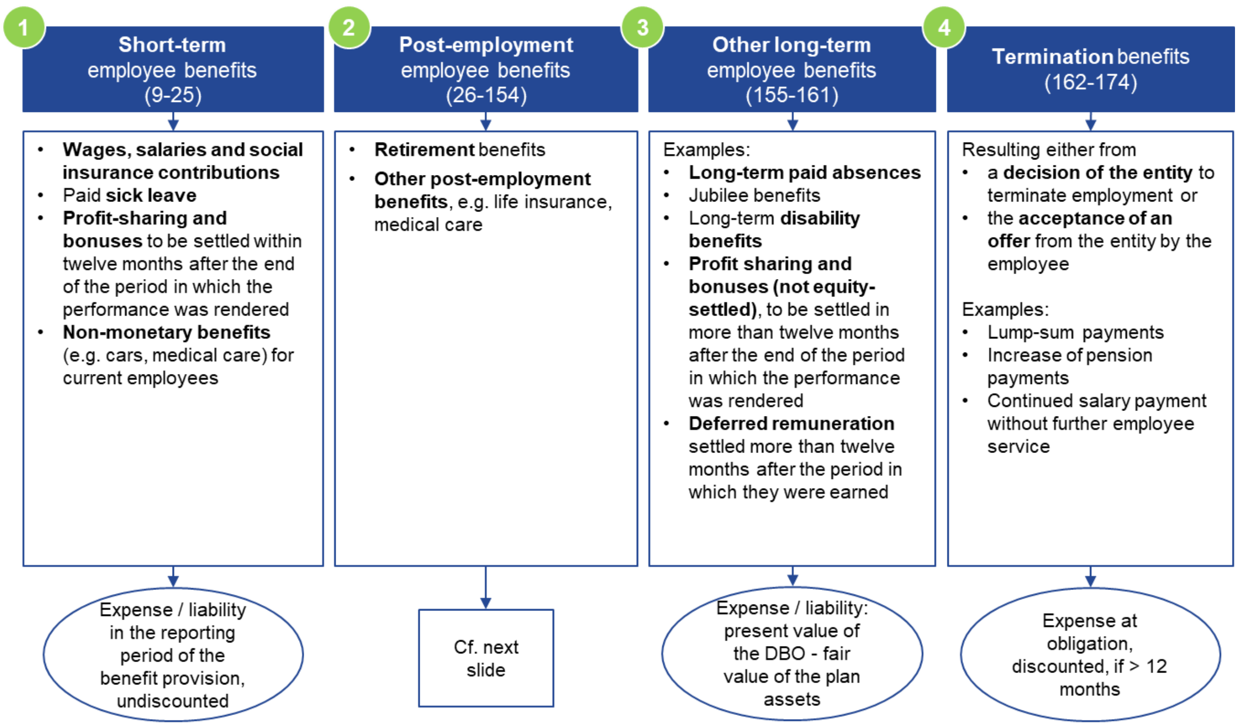
6.3.1 Theoretical background

Scope

In line with IPSAS 39.2, the standard applies for accounting for employee benefits. In line with IPSAS 39.5, these benefits are divided into four categories: short-term employee benefits[29] (e.g. wages, salaries, social insurance contributions), post-employee benefits (e.g. pension provisions, assistance provisions), other long-term employee benefits (e.g. anniversary benefits, early retirement) and termination benefits (e.g. termination indemnities).

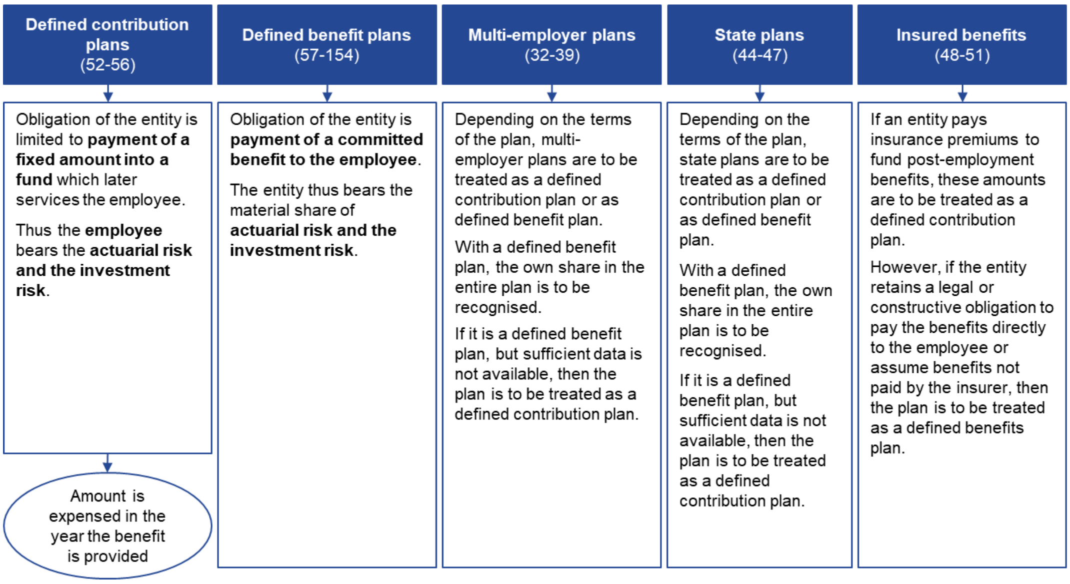
Recognition

The following diagram provides an overview of the classification and the recognition requirements of the four benefit categories.



[29] Short-term employee benefits are employee benefits of the reporting entity which are settled within twelve months after the end of the reporting period in which the related service is rendered.

In turn, post-employee benefits are divided into five groups. Depending on the economic substance of the commitment in respect to who bears the economic risk - the employee or the employer - a differentiation is made between defined contribution and defined benefit obligations resp. plans. In addition, there are other plans which have either a defined contribution or defined benefit alignment. This include multi-employer plans and state plans. The fifth group of post-employment benefits is insured benefits. The following diagram provides an overview about the five groups:



Measurement

Short-term employee benefits (IPSAS 39.9-.25):

In line with IPSAS 39.11, short-term employee benefits which are paid in exchange for service rendered are:

- to be recognised as a liability after deducting any amount already paid.
- to be recognised as an expense, unless another standard requires or permits the inclusion of the benefits in the cost of an asset.

Post-employee benefits (IPSAS 39.26-154):

a) Pension obligations

Depending on the economic substance of the commitment in respect to who bears the economic risk - the employee or the employer - a differentiation is made between defined contribution and defined benefit plans. Under defined contribution plans in line with IPSAS 39.28, the insured person bears the actuarial risk. In line with IPSAS 39.30, there is a defined benefit obligation when the reporting entity pays the committed benefits to the beneficiary – and thus also bears the risk.

In line with IPSAS 39.55, accounting for defined contribution plans is restricted to the contributions paid to the employees in the period of service during the reporting period being recognised in ongoing personnel expenses and in the notes (IPSAS 39.53).

For defined benefit plans, the projected unit credit (PUC) method is permitted for measurement (IPSAS 39.69). Under the PUC method, the pension obligation is defined as the present value of the defined benefit obligation (DBO). The scope of the obligation – the DBO – is the present value of the vested realistically measured pension claims including probable pension increases on the reporting date, required to settle the obligation resulting from employee service in the current and prior periods. On the basis of the PUC method, the part of the pension claim which vests in one year is fully financed on the basis of a (fictive) single premium payment.

b) Provisions for benefit obligations

Benefit obligation provisions for qualifying beneficiaries for benefits received from the start of their retirement are measured using the PUC method as with pension obligations.

Other long-term employee benefits (IPSAS 39.155-.161):

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, in line with IPSAS 39.156 the standard requires a simplified method of accounting for other long-term employee benefits. Unlike accounting for post-employment benefits, with this method no remeasurements are recognised in net assets/equity.

For working time accounts, anniversary obligations and early retirement, measurement takes place as with termination benefits using the PUC method and taking into account expected changes in the future such as pay rises. When determining the interest rate, account is to be taken of the maturity of the obligations.

Termination benefits (IPSAS 39.162-.174):

Termination benefits can be capital payments (severance payments), but they can also be multi-year payments (e.g. transitional allowances) or lifetime pension payments. Thus, the benefits – depending on the structure – are either current, other non-current or pension obligations. For this reason, the obligation is measured in line with the regulations for the measurement and recognition of that category of employee benefits to which the obligation belongs. However, as the amount and the reason of the benefits do not depend on future service, the benefit is certainly vested, i.e. the obligation is to be recognised at the full present value of future benefits.

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
Scope	Application of IPSAS 39 for: • Short-term employee benefits • Post-employment benefits; • Other long-term benefits; • - Termination benefits	In German commercial law there is no standard comparable to IPSAS 39. Regulations on treating pension-related and employee benefits result from the general regulations under commercial law and commentaries.

	IPSAS	HGB
Definitions	Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. (IPSAS 39.27) Defined contribution plans are post-employment benefit plans under which a reporting entity pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under certain circumstances, the so-called multi-employer plans may be treated as defined contribution plans, even though they are defined benefit plans. (IPSAS 39.8)	A difference in defined contribution plans and defined benefit plans as with IPSAS is not enshrined in commercial law. In line with Article 28 EGHGB, for pension commitments there is a differentiation between direct and indirect pension commitments. Direct obligations are those which exist between the obliged entity and the beneficiary without the intermediation of another legal entity (e.g. provident fund, pension scheme, pension fund or direct insurance). Indirect pension obligations are those for which the reporting entry is responsible, although they are met directly by another legal entity (as in the case of insufficient assets of the performing legal entity to service the obligations). There is substantive conformity between the terms pension-related obligations and pension obligations, as they are used in parts of the commercial regulations. (IDW RS HFA 30, as amended, Note 6)

Recognition and measurement

Recognition and measurement	**Recognition and measurement** Defined contribution plans An amount to be paid to a defined contribution plan is to be recognised as a liability (accrued expense) after deduction of contributions already paid and as expense unless another standard demands or allows inclusion of the contribution in the cost of an asset. (IPSAS 39.53) Defined benefit plans To determine the present value of a defined benefit obligation, the related current service cost and, where applicable past service costs, the reporting entity is to use the PUC method. (IPSAS 39.69) Measurement of defined benefit plans using the PUC method: 2 measurement runs: 1. Prospective measurement run which takes into account the budget preparation method to coordinate the measurement parameters.	**Recognition** A difference in defined contribution plans and defined benefit plans as with accounting in line with IPSAS is not enshrined in commercial law. The recognition of obligations for current pensions and future pension claims as well as comparable long-term obligations is to be found in principle in the scope of Section 249 (1) sentence 1 HGB (uncertain liabilities), which results in a general obligation to recognise a provision. Based on this principle, a differentiation is made between various forms of pension-related obligations under commercial law, which can deviate from this principle. Direct pension-related obligations Here within the meaning of Section 249 (1) sentence 1 HGB, a provision must be recognised if the entity has a legal obligation to a direct commitment or there is a de facto requirement to provide performance be-

	IPSAS	HGB

IPSAS

2. Retrospective remeasurement which takes account of actuarial gains and losses through net assets/equity.

HGB

cause the entity, even without a legal obligation, cannot disengage itself from performance. The obligation does not exist if granting a benefit commitment has been indicated only prospectively or in an individual case depends on a future event whose occurrence can be determined by the reporting entity.

For direct old commitments (acquisition of the entitlement before 1 January 1987) and their increase since 31 December 1986, there is a liability recognition option in line with Article 28 (1) sentence 1 EGHGB.

<u>Indirect pension-related obligations</u>

In line with Article 28 (1) sentence 2. In EGHGB there is an option to recognise indirect pension obligations. Recognising a provision is also not required if the assets of the benefit institution are not sufficient to cover the pension-related obligations. If the entity is held liable, a liability must be established at the level of the payment obligation. In this case, the option to recognise a liability within the meaning of Article 28 (1) sentence 2 EGHGB does not apply.

Measurement

Provisions are to be carried at the necessary settlement amount according to prudent business judgement.

(Section 253 (1) sentence 2 HGB)

For the measurement of obligations from accrued vested pension rights, both the projected unit credit method (PUC within the meaning of IPSAS) and the actuarial entry-age normal method can be used.

(IDW RS HFA 30 Note 61)

On the other hand, in the case of special contractual features of the commitment which exclude equal distribution of the pension-related expense over the entire active period of service, only the projected unit credit method results in valuations permitted in line with commercial law.

	IPSAS	HGB
Measurement parameters	Actuarial assumptions are to be unbiased and mutually compatible. (IPSAS 39.77) Unbiased: neither imprudent nor excessively conservative (IPSAS 39.79)	The pension provision can be measured on the basis of various actuarial methods (cf. above), as long as the application of the respective method results in determining the necessary settlement amount in line with prudent business judgement. Here different actuarial assumptions are used.
Interest rate	In line with IPSAS 39.88, the reporting entity assesses whether the discount rate reflects the time value of money, which 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.	Provisions with a remaining term of over one year are to be discounted at the average market interest rate relevant to the remaining duration, which in the case of provisions for pension-related obligations results from the last ten financial years and in the case of other provisions for the last seven financial years. As an exception to this, provisions for pensions or similar long-term obligations can be discounted at a flat rate using an average market interest rate assuming a remaining term of 15 years. (Section 253 (2) HGB) In line with the Provision Discounting Regulation, the discount rates are calculated and announced by the Deutsche Bundesbank. (Section 253 (2) sentence 3 HGB)
Expected return on plan assets	The expected return results from the product of the interest and the fair value of the plan assets at the beginning of the year. (IPSAS 39.127)	Only the actual return is recognised to the end of the year.

	IPSAS	HGB
Plan assets and offset	IPSAS 39.8 stipulates that assets must be classified as plan assets if they: • are held by an entity that is legally separate from the reporting entity and exist solely to pay or fund employee benefits; • are not available to the reporting entity's own creditors; and • cannot be returned to the employer to the extent that the funds are required to meet the benefit obligations of the plan and do not serve to reimburse employee benefits already paid by the employer. When determining the undercoverage or overcoverage, the fair value of the plan assets is deducted from the present value of the defined benefit obligation. (IPSAS 39.115)	Cover assets are assets protected against all other creditors and are used solely to meet pension or similar long-term liabilities. The conditions for the existence of cover assets (within the meaning of Section 246 (2) sentence 2 HGB) are not fully identical with the requirements for plan assets in IPSAS 39.8. In particular, for cover assets no legally independent, separate unit / legal entity is required by the reporting entity which exists exclusively to finance pension obligations of comparable long-term benefits. In line with Section 246 (2) sentence 2 HGB, cover assets are to be offset against the corresponding pension-related obligations. As with expenses and income from the cover assets to be offset, expense and income from compounding and discounting the obligation are also to be offset.
Valuation of plan assets	The measurement takes place at fair value. (IPSAS 39.115)	In line with Section 246 (2) sentence 2 HGB, assets to be offset are to be measured at fair value.

Presentation

Presentation of plan assets and pension provisions	The reporting entity reports the net liability (net asset) from the defined benefit plan. (IPSAS 39.65)	Any remaining overhang on the liabilities side (from offsetting cover assets against the corresponding obligation) is recognised in provisions for pensions and similar obligations. Similarly, any overhang on the asset side is to be recognised in a separate item on the balance sheet. (Section 246 (2) sentence 3 HGB)
Offsetting income of the plan assets	Net interest on the net defined benefit liability is determined by multiplying the net defined benefit liability by the discount rate, with the two figures being determined at the beginning of the financial year. (IPSAS 39.125)	Offsetting associated expenses and income from discounting and from the assets offset. (Section 246 (2) sentence 2 HGB)

	IPSAS	HGB
Actuarial gains and losses / re-measurements	Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from: • experience adjustments (e.g. actual income of plan assets differs from the plan assumptions); and • effects of changes in actuarial assumptions: (actual interest rate different from the planned one). (IPSAS 39.8) Measurement of other long-term employee benefits in line with IPSAS 39.156: Unlike accounting for post-employment benefits, with this method remeasurements are not recognised in net assets/equity, but directly in surplus or deficit.	Changes in trend assumptions and the biometric measurement parameters are recognised in the operating result. There is the option to recognise any impact on profit and loss from a change in the discounting rate, fair value changes of the cover assets and current income from the cover assets either in the operating or in the financial result.

Disclosures in the notes

	IPSAS	HGB
	<u>Defined contribution plans</u> Disclosures on the amount recognised as expense for a defined contribution plan. (IPSAS 39.55) <u>Defined benefit plans</u> IPSAS 39.137 stipulates that the information to be disclosed in the notes in respect to the defined benefit plans operated by the reporting entity explains: • its characteristics and the risks associated with them; • the resulting amounts in the annual financial statements; and • - their impact on future cash flows.	Disclosures of the actuarial calculation methods used for the pension provisions and the underlying actuarial assumptions.

6.3.2 Notable practical insights from implementation

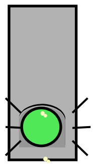
The following insights resulted from implementing the standard:

Measurement of defined-benefit plans	The measurement of the settlement amount requires determining actuarial parameters. Particularly on initial recognition, corresponding consideration in the measurement systems results in increased work, which however would not recur to the same extent in the case of regular presentation of IPSAS financial statements. Of particular importance here is determining the interest rate, as this is the basis both for discounting the obligation and for determining the return on the plan assets.
Taking account of insights from the budget process	In the context of the prospective measurement of the pension and benefit obligations, account can be taken of the available budget data as an objectified data basis, which at the same time determines the impact on results at the beginning for the budget year. The deviations occurring in the retrospective measurement of pension-related obligations due to events occurring after the reporting date and those not foreseeable in the forecast are recognised directly as actuarial gain or loss.
Interest rate as a measurement parameter	Weighted average discount rate on the reporting date, taking account of the expected return from plan assets and the part of obligations not covered by plan assets using matching maturities of government bonds.
Disclosures in the notes on defined benefit plans	IPSAS 39 requires extensive qualitative and quantitative disclosures and reconciliations, which can result in increased work, both at initial recognition and in standard operations. This can be countered by appropriate process changes.

6.3.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 39 ensures fit-for-purpose accounting (in part.)



Recognition of pension commitments	• The obligation to recognise pension commitments, which includes indirect pension commitments, results in complete recognition.
Presentation of actuarial gains and losses	• The measurement rules of the standard ensure transparent recognition of the complete obligations to employees in the balance sheet, although these can be subject to strong fluctuations as a result of the actuarial parameters and the measurement methodology. • The complete presentation of the development of the obligation from defined benefit plans requires determining actuarial gains and losses which are recognised directly in equity, without impacting the statement of profit or loss. In summary, in this respect the standard is assessed as fit for purpose. • Budget practise, with budget planning preceding the accounting year as part of budgeting, accommodates this. This particularly impacts regional administrative authorities with a high number of beneficiaries such as the state of Hesse (31 December 2019: approx. 188,000 persons) and the resulting amount of provisions (31 December 2019: approx. EUR 167 billion) with a volatile value development.
Measurement on the basis of actuarial parameters	• Determining the actuarial parameters (e.g. interest rate) is subject to clear rules. Here it should be noted that the information used is objectifiable and is fed from reliable sources (e.g. Government bonds). The fact that judgement is possible when determining the interest rate explicitly does not restrict comparability of reporting entities due to the objectifiability of the information so that fitness for purpose can be determined.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition Indirect pension commitments
Transparency, (appropriate) informational content for users and understandability	Yes	Yes
	• Explicit regulations to account for employee benefits • Breakdown and separate assessment of defined contribution and defined benefit plans increases transparency	• Complete recognition results from obligation to recognise pension commitments
Data quality	n/a	n/a
Comparability	Yes	Yes
	• Scope clearly defined	• Comparability secured with clear regulations
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		
Comments / Information		

Measurement Actuarial parameters	Presentation Actuarial gains and losses	Disclosures in the notes Extended disclosures in the notes
Yes	Yes	Yes
• Clear rules on determining the actuarial parameters (e.g. interest rate) • Ensuring realistic presentation of future obligations	• Complete and transparent recognition of obligations to employees in the balance sheet secured on the basis of clear measurement rules • Complete presentation of the development of obligations from defined benefit plans requires determining actuarial gains and losses • Actuarial gains and losses are recognised directly in equity, without impacting the statement of financial performance • Amount can be subject to strong fluctuations as a result of the actuarial parameters to be considered	• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
Yes	Yes	n/a
• Determination of actuarial parameters based on objectifiable information fed from reliable sources (e.g. government bonds)	• Budget practise, with budget planning preceding the accounting year as part of budgeting, accommodates this, especially with a high number of beneficiaries and a high volatile amount of provisions	• No additional determination of information required for the disclosures in the notes
Yes	Yes	Yes
• Judgement in determining actuarial parameter do not restrict comparability due to objectifiability of the information	• Comparability secured with clear regulations	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
• No restriction of the prudence principle as provisions determined on the basis of objectifiable information.		

6.4 IPSAS 42: Social Benefits

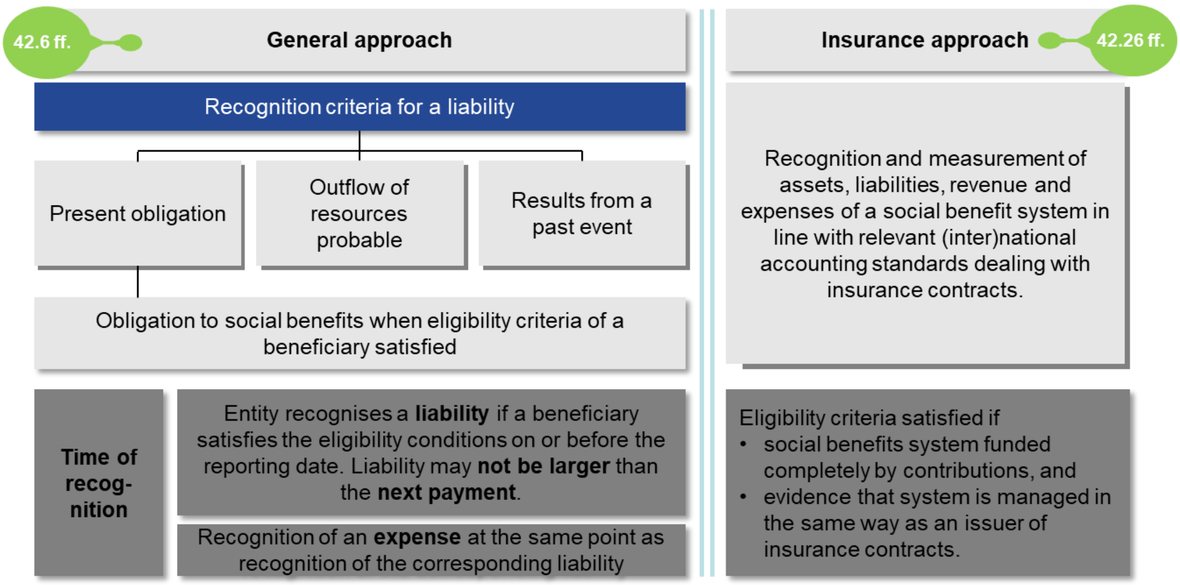
6.4.1 Theoretical background

Scope

In line with IPSAS 42.3, the standard is to be applied to social benefits. In line with IPSAS 42.5, social benefits are defined as cash transfers for specific persons and/or households which meet the eligibility criteria, mitigate the effect of social risks and address the needs of society as a whole (e.g. unemployment benefits, surviving dependent benefits, retirement benefits or child benefits).

Recognition

For the recognition of obligations for social benefits of the reporting entity, the standard differentiates between the general approach (IPSAS 42.6ff.) and the insurance approach (IPSAS 42.26ff.), as shown in the following diagram.



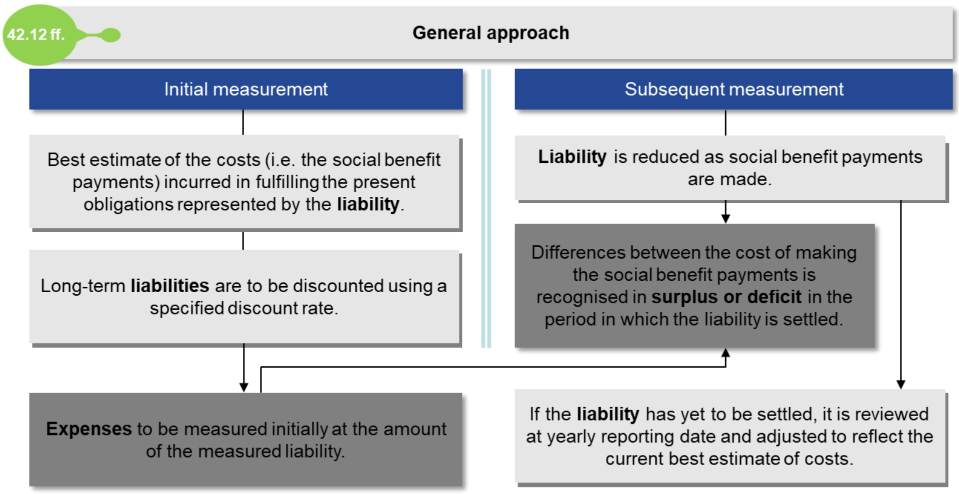
The reference to “relevant international or national accounting standards dealing with insurance contracts” in IPSAS 42.28 relates to IFRS 17 Insurance Contracts and relevant national standards for accounting for insurance contacts.

In line with IFRS 17, a group of insurance contracts is to be recognised at the earliest of the following: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due or, for a group of onerous contracts, when the group become onerous (IFRS 17.25).

Measurement

General Approach

In line with the general approach, expenses are recognised at the amount corresponding to the amount of the obligation (IPSAS 42.21). The initial and subsequent measurement of the liabilities takes place as follows:



Insurance Approach

In the context of the initial measurement in line with IFRS 17, future incoming and outgoing cash flows within the boundary of each contract are to be estimated at the neutral expected value. As the standard setter considers that the insurance contract represents a bundle of rights and obligations, the measurement of the provision for future insurance cover also includes the present value of the premiums expected in this connection (as with social insurance contributions), to the extent that the payment of the premiums takes place within the contract boundaries.

In IFRS 17, insurance contracts are measured in the general model by individual contract on the basis of the building block approach, which covers four building blocks. For each group of contracts, an amount is to be calculated made up of the risk-adjusted expected value of the future discounted cash flows and possibly the service margin.

Building block 1: Determine expected cash flows

For establishing the provision, the expected value of the cash flows (especially premiums resp. payments of social insurance contributions and payments for the social benefits) is to be estimated.

Building block 2: Discount cash flows

Within the estimate of the expected value, cash flow is discounted to the reporting date.

Building block 3: Calculate the risk adjustment by models / observation

The risk adjustment reflects the compensation the insurer receives for assuming uncertainty in respect to the amount and timing of the future payments.

The experience value is made up of the first three building blocks.

Building block 4: Consider the service margin

If the first three building blocks anticipate a surplus from the contract, this is compensated by recognising a service margin in order to distribute it across the insurance period in line with the service provision according to the realisation principle. With an onerous contract, there is no service margin.

If an onerous contract results when recognising an insurance contract, this is recognised as a provision in profit or loss. This can be the case when at the beginning of the (social) insurance contract the premiums resp. social insurance contributions are too low in comparison to the value of the risks.

In the context of the subsequent measurement, the present value calculated using building blocks 1 to 3 is to be adjusted by the scheduled reversal and the updated assumptions relevant to measurement. At the same time, in the subsequent measurement any service margin (building block 4) is to be updated in order to present the impact of any estimated changes on future results. In line with the provision of service, the service margin is reversed in profit and loss in the current period in relation to the services to be provided in the further course of the contract.

In the further course of the (social) insurance contract, the development of premiums resp. social insurance contributions is to be validated against the risks assessed. If these are (still) too low, this may result in a (further) addition to the provision recognised in profit and loss. The part of the provision, which is not covered by premiums, but already recognised as loss is carried as a loss component, because at reversal this part is not recognised as income but as negative expense.

Differences IPSAS/HGB [30]

	IPSAS	HGB
Scope		
	Transactions which meet the definition of a social benefit: Social benefits are benefits which • are intended for specific individuals and/or households that meet the eligibility criteria • mitigate the impact of social risks • address the needs of society as a whole (IPSAS 42.3 and IPSAS 42.5)	No specific regulations on social benefits; in the Accounting Treatment Handbook these are to be recognised under grants.
Recognition		
General Approach	Recognition of a liability for social benefits when there is a present obligation for an outflow of resources that results from a past event and the eligibility criteria for receiving the social benefit are met by the beneficiary ("being alive" of the beneficiary in the context of meeting the eligibility criteria). (IPSAS 42.6)	A liability of the state to the beneficiary is caused economically at the time the notice of grant is created. In the state of Hesse, for reasons of practicability the timing for creating a liability for the obligation to the beneficiaries has been determined as the time the public official appends the final approval signature.

[30] In line with the regulations of HGB, the state of Hesse drafted corresponding regulations for the special features of the public sector. Thus, the presentation of social benefits in line with Accounting Treatment Handbook, in agreement with Accounting Note and audit companies, is assessed as an interpretation of the commercial law principles in compliance with generally accepted accounting principles.

	IPSAS	HGB
Insurance Approach	Recognition of a group of insurance contracts at the earliest of the following: • the beginning of the coverage period • the date when the first payment group becomes due • for a group of onerous contracts, when the group become onerous (IFRS 17.25)	No specific regulations on social benefits in HGB, in line with the Accounting Treatment Handbook provisions recognised for social benefits as pensions / recurring benefits
Measurement		
General Approach	Expenses are to be measured at the amount of the liability of the social benefits to be paid. (IPSAS 42.21) Liabilities for social benefits are to be measured at the best estimate of the costs which will be incurred in fulfilling the present obligation. (IPSAS 42.12).	In line with Section 253 (1) sentence 2 HGB, liabilities are to be recognised at settlement amount. The settlement amount of a liability is determined by the amount required to settle the liability.
Insurance Approach	For recognising the provision, the expected value of the cash flows discounted to the time value of the money (especially premiums and payments of social insurance contributions and payments for the social benefits) is to be estimated. In the framework of IFRS 17, insurance contracts are measured in the general model on the basis of the building block approach which covers four building blocks: 1. Building block: Determine expected cash flows 2. Building block: Discount cash flows 3. Building block: Calculate the risk adjustment by models / observation Together the first three building blocks make up the settlement value. 4. Building block: Service margin If an onerous contract results at the commencement of an insurance contract, this is recognised as an expense in surplus or deficit. (IFRS 17.32)	Provisions are to be recognised at settlement amount. With a remaining term of more than one year, discounting should take place at the average market interest rate of the remaining term. (Section 253 (2) HGB) In addition to the generally applicable regulations on accounting for provisions, HGB contains specific regulations on the recognition, measurement and presentation of actuarial provisions in Sections 341e-h HGB.

	IPSAS	HGB
Disclosures in the notes		
General Approach	Disclosures on the characteristics of social benefit schemes, including: • the nature of social benefits • key features of the social benefit schemes • 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 public sector entity, or by other means. Information on the total expenditure for social benefits. (IPSAS 42.24)	Presentations of material funded products
Insurance Approach	Disclosure of the basis for determining that the insurance approach is appropriate. Information required by the relevant international or national accounting standard dealing with insurance contracts. Information about the nature of the social benefits provided by the schemes and the key features of the social benefit schemes. (IPSAS 42.30-.31)	--

6.4.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

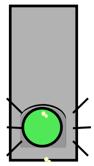
General Approach The differences in accounting for social benefits identified in the analysis between national regulations and IPSAS result primarily from the current HGB understanding of the state of Hesse. In general, in line with commercial law, a presentation of the topics within the definition of IPSAS 42 similar to that of IPSAS is possible.

Insurance Approach In the state of Hesse, there are currently no such cases for insurance recognition.

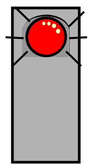
6.4.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 42 ensures fit-for-purpose accounting (in part.)

Scope	• The regulation of social benefits in a separate IPSAS indicates the important of the specific topic for the public sector.	
General Approach	• The general approach for accounting for social benefits ensures the presentation of expenses in the appropriate economic period. Applying the regulations also results in proximity to the budget.	
Insurance Approach	• Applying the insurance approach produces an appropriate presentation of the facts by using the accounting regulations of the insurance industry. Information relevant for the users which allows a critical scrutiny of the sustainability of the insurance system or also the appropriateness of the contribution rates is provided by the presentation and the related disclosures.	

IPSAS 42 does not ensure fit-for-purpose accounting (in part.)

Insurance Approach (option)	• The option to apply the insurance approach – also when the criteria for its application are present – limits the targeted comparability of the financial statements of different reporting entities. The lack of comparability is exacerbated by the fact that when the option in favour of the insurance approach is exercised, not only international, but also potentially heterogeneous national regulations may be used. Especially as the informational content resulting from applying the insurance approach is considerably higher, it seems that electing for the option primarily on the basis of a cost perspective does not achieve the desired objective.	
Consideration of the special features of the public sector in respect to social insurance law.	• In the framework of the general scope of insurance recognition, account is to be taken of special features of social insurance law such as contribution subsidies and non-insurance benefits.	

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition and measurement	
		General Approach	Insurance Approach
Transparency, (appropriate) informational content for users and understandability	Yes	Yes	Yes
	• Importance of social benefits for the public sector shown by the special regulations in the context of the separate standard	• Complete presentation of expenses in the appropriate economic period secured in the context of general approach	• Informational content generally higher with the insurance approach than with the general approach
Data quality	n/a	Yes	No
		• Proximity to the budget ensured • Presentation on an accrual basis secured	• Correct presentation of the facts by using the accounting regulations of the insurance industry • However, in the framework of insurance recognition, account needs to be taken of special features of social insurance law
Comparability	Yes	Yes	No
	• Scope clearly defined	• Comparability secured with clear regulation	• Option to apply the insurance approach generally restricts comparability • If option is exercised, both international and heterogeneous national regulations can be used, which can also result in a negative impact on comparability
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**
Conclusion			• Mandatory application of insurance approach if conditions are met, possibly with mandatory consideration of international regulations appears sensible
Comments / Information			

Presentation	Disclosures in the notes	
No difference	General Approach	Insurance Approach
	Yes	Yes
	• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable	• The information published in the context of the insurance approach allows a critical scrutiny of the sustainability of the insurance system and the appropriateness of the contribution rates • Very extensive, in some cases, complex disclosures in the notes requires specialist knowledge - questionable whether appropriate for uses
	n/a	n/a
	• No additional determination of information required for the disclosures in the notes	• Determining information depending on the international / national standards applied
	Yes	Yes
	• Comparability secured with clear regulations	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**

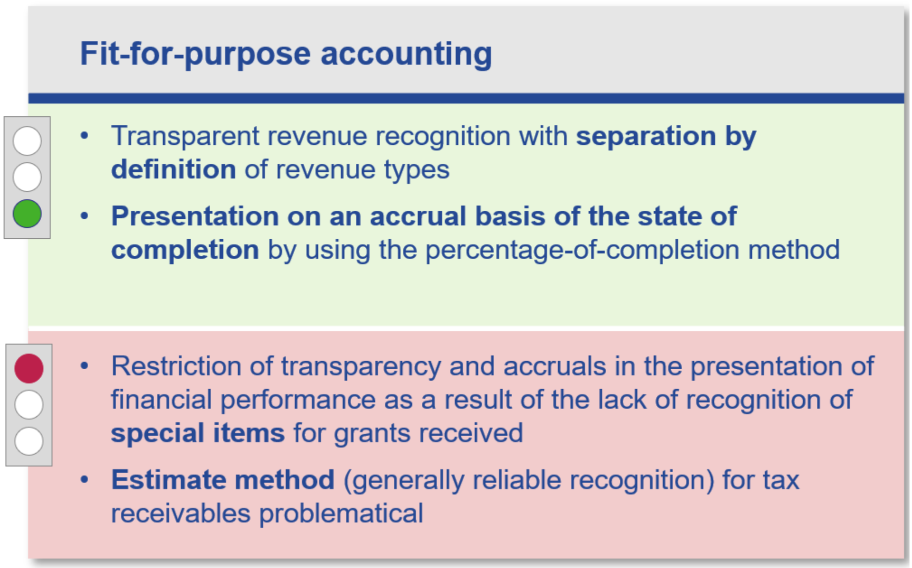
7. Revenue and expenses

7.1 Summary

This chapter assesses the following IPSAS which are to be applied in presenting revenue and expenses:

IPSAS Standard
IPSAS 9: Revenue from Exchange Transactions
IPSAS 11: Construction Contracts
IPSAS 23: Revenue from Non-Exchange Transactions
ED 72: Transfer Expenses (in conj. with additions to IPSAS 19: Collective and Individual Services)

The IPSAS relevant to revenue and expenses – as listed above – are assessed predominantly as fit for purpose. The contributing positive elements as well as certain points of criticism are combined in the following diagram.



The specifications for realising revenue are currently regulated in three standards: IPSAS 9 Revenue from Exchange Transactions, IPSAS 11 Construction Contracts and IPSAS 23 Revenue from Non-Exchange Transactions. There are still no regulations on expenses, in particular on transfer expenses. In this context and in connection with the adjustment of regulations on revenue realisation for the private sector with the introduction of IFRS 15, IPSASB published the Accounting for Revenue and Non-Exchange Expenses consultation paper in August 2018. This provides the framework for the further development of the following Exposure Drafts which aim to optimise, standardise and supplement the regulations on the recognition of revenue and expenses in the public sector:

Exposure Draft
ED 70: Revenue with Performance Obligations (replaces IPSAS 9 Revenue from Exchange Transactions and IPSAS 11 Construction Contracts)
ED 71: Revenue without Performance Obligations (replaces IPSAS 23 Revenue from Non-Exchange Transactions)
ED 72: Transfer Expenses

The three Exposure Drafts are to be understood in connection with each other.

In addition, in January 2020, IPSASB supplemented IPSAS 19 (Amendments to IPSAS 19) in respect to accounting for collective and individual services – based on ED 67: Collective and Individual Services and Emergency Relief.

7.2 IPSAS 9: Revenue from Exchange Transactions

7.2.1 Theoretical background

Scope

In line with IPSAS 9.1, the standard applies to accounting for revenue from exchange transactions and events. An exchange transaction is defined as a transaction in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services of use of assets) to another entity in exchange (e.g. water facilities, provision of housing or toll roads) (IPSAS 9.11).

Recognition

In line with IPSAS 9, revenue is realised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably (realisation date). The standard differentiates between the following type of exchange transactions (IPSAS 9.19 ff., .28 ff., .33 ff.).:

Rendering of services	• Amount of **revenue can be measured reliably**. • Inflow of economic benefit is **probable.** • **Stage of completion** of the transaction at the reporting date can be **reliably measured**. • **Costs** incurred and costs to complete can be **reliably measured**.	• School transport • Facility management • Tuition fees
Sale of goods	• Amount of **revenue can be measured reliably**. • Inflow of economic benefit is **probable**. • **Costs** can be **measured reliably**. • Significant **risks and rewards** are transferred. • **No managerial involvement** or control.	• Sale of goods
Interest, royalties, dividends	• Amount of **revenue can be measured reliably**. • Inflow of economic benefit is **probable**.	• Trademarks • Patents • Software

Measurement

In respect to the measurement of the individual types of transaction which are within the scope IPSAS 9, the following should be noted:

Measurement of revenue

Standard case: Amount fixed by agreement	**Special case: Financing transaction**
Measurement of revenue at • fair value of the consideration received or receivable, • less trade discounts and volume rebates	Determination of the • fair value of the consideration by discounting all future receipts using an imputed rate of interest.

9.15-.16

	Services	**Sale of goods**	**Royalties**
Time of recognition	Revenue recognition in line with the **stage of completion**, i.e. revenue is recognised in the reporting period in which the respective service is provided.	Revenue recognition on transfer of significant **risks and rewards**.	Revenue recognition in line with the **economic substance** of the agreement. Possible **recognition on a straight-line basis** over the life of the agreement for practical purposes

Revenue realisation is to be assessed as follows:

In principle

According to IPSAS 9.18, revenue recognition is to be applied separately to each transaction

In specific cases differentiation necessary

Two explicitly separate transactions are to be dealt with together

Example:
In a sales agreement on goods, a separate arrangement is entered into on the repurchase of the goods at a later date

Transaction can implicitly contain a second one

Measurement of the separate components necessary

- Can the fair value of each individual component be determined reliably?
- Do separate components have a separate value? (standalone value)

Example:
The sales price of a product includes an amount for subsequent services

Presentation

IPSAS 9 does not contain separate regulations for the recognition of revenue and expenses in the statement of financial performance. IPSAS 1.102 specifies minimum line items in the statement of financial performance. Here separate recognition of sales is required.

Outlook IFRS 15 (ED 70: Revenue with Performance Obligations)

The basis for IPSAS 9 is IAS 18 which is to be applied by the private sector. For financial years beginning on or after 1 January 2018, already decisive for revenue recognition for the private sector in line with international accounting standards is IFRS 15 which replaces both IAS 18, and IAS 11 as well as the corresponding interpretations. These new regulations of accounting for revenue recognition are expected to be introduced in IPSAS in the medium term and are currently being discussed on the basis of IPSASB Exposure Draft 70: Revenue with Performance Obligations (ED 70).

ED 70 is based on a 5-step model which is to be applied to all revenues in connection with performance obligations. If a binding arrangement is identified (Step 1), in Step 2 the performance obligations resulting from the arrangement in the form of the services and goods promised are to be identified. In Step 3 the transaction price is to be determined as the amount of consideration expected to be entitled. In Step 4, this transaction price is to be allocated to the identified performance obligations. Finally, in Step 5 revenue is to be recognised when the performance obligation is satisfied. A performance obligation is considered satisfied if an agreed good or performance to be rendered is transferred or provided to the contract partner, i.e. the contract partner obtains control over the good or service.

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
Revenue from exchange transactions	The scope relates to exchange transactions such as the sale of goods, rendering of services or the use of assets. (IPSAS 9.11) There are separate regulations for revenue from non-exchange transactions in IPSAS 23. In addition, specific revenue from exchange transactions is regulated in separate standards (IPSAS 11, IPSAS 13).	No separation between revenue with and without exchange transactions.
Recognition		
Realisation time		
a.) Rendering of services	Principle (irrespective of contract): In line with the state of completion to the extent this can be reliably estimated. If no reliable estimate: Revenue recognition at the level of expenses incurred. If it is not probable that the costs incurred will be recovered: No revenue recognition, only recognition of costs. (IPSAS 9.19 ff.)	Principle (depending on contract): In line with the realisation principle, only realised gains can be recognised. → Completed contract method (Section 252 (1) No. 4 HGB) Separate contract types: Work contract When providing services in the framework of work contracts, rewards and risks are generally transferred when the orderer accepts the work. In the case of defined part performance, realisation of partial profits is permitted. Service contract (point in time) With the completion of a service, the main performance promised is generally considered as rendered. Here revenue is to be realised at this point in time. Service contract (over time) This relates to recurring or continuous obligations, which is why pro rata realisation is possible.
b.) Sales of goods	Recognition with transfer of significant risks and rewards. (IPSAS 9.28)	As with IPSAS, recognition at transfer of rewards and risks to the buyer (generally at delivery).
c.) Royalties		
• Interest	Interest is to be recognised pro rata temporis taking into account the effective yield on the asset. (IPSAS 9.34)	Pro rata recognition with the end of the respective transfer period.

	IPSAS	HGB
• **License fees, royalties**	License fees/royalties are to be recognised if they are acquired in accordance with the terms of the relevant agreement, unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis. (IPSAS 9.34, .37)	Generally pro rata revenue realisation in line with the period of the service rendered.
• **Dividends and similar distributions**	Dividends or similar distributions are to be recognised when the shareholder's or the entity's right to receive payment is established (resolution on the distribution of profit). (IPSAS 9.34)	Recognition generally when the resolution on the distribution of profit is made (legal basis for claim to profits). (Section 252 (1) No. 4 HGB
Exchange transaction	When goods or services are exchanged for goods or services that are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. Revenue is measured at the fair value of the goods or services received. 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. (IPSAS 9.17)	Option between realisation by capitalising the acquired asset at the difference the fair value of the exchanged asset is higher than its carrying amount and realisation avoidance by carrying forward the carrying amount.

Presentation

	IPSAS 9 does not contain separate regulations for recognition in the statement of financial performance. IPSAS 1.102 specifies minimum line items in the statement of financial performance. Here separate recognition of sales is required.	Special recognition of revenue and other interest receivable and similar income in line with the HGB classification. (Section 275 HGB)

	IPSAS	HGB
Disclosures in the notes		
	Description of the accounting policies and recognition method Description of the method for determining the stage of completion for services Amount of each category of revenue recognized: ○ Sale of goods ○ Rendering of services ○ Interest ○ Royalties ○ Dividends or similar distributions Amount of revenue from exchange transactions per category (IPSAS 9.39)	Description of the accounting policies and recognition method Breakdown of revenue by area of activity and by geographical market, to the extent that areas of activities and specific geographical markets vary considerably, taking account of the organisation of sales, rental or leasing of products and the provision of services (Sections 284, 285 HGB)

7.2.2 Notable practical insights from implementation

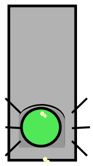
The following insights resulted from implementing the standard:

Scope	Due to the differentiation between exchange and non-exchange revenue intended under IPSAS – unlike national commercial law – to begin with it was necessary to correspondingly allocate and separate the relevant transactions. In many areas (particularly in relation to taxes and transfer revenue), this was uncomplicated and clearly possible. After initial recognition, in the context of regular accounting in line with IPSAS, a corresponding adjustment of the chart of accounts and a recognition of the corresponding items on separate accounts would be sensible.
Application of the percentage of completion (PoC) method	When implementing IPSAS 9, adjustment requirements in comparison to national accounting resulted particularly in applying the PoC method for revenue realisation from providing services. Due to settlement practise in the state of Hesse (settlement in the framework of work contracts after rendering part performance and in line with stage of completion), it was possible to determine the relevant value on a practical basis without a high level of work.

7.2.3 Fit-for-purpose accounting by applying IPSAS?

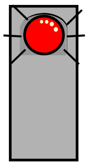
a. Summary of assessment

IPSAS 9 ensures fit-for-purpose accounting (in part.)



Scope	• The separation by definition between non-exchange and (additionally differentiated) exchange transactions takes account of the special features relating to the public sector, allowing a transparent presentation of different sources of financing.
Time of realising revenue from services	• Revenue realisation in line with the PoC method secures a transparent presentation of gains and losses generated on an accrual basis. Specific regulations according to which the percentage of completion is to be assessed and criteria for corresponding revenue realisation allow recognition of revenue/profits, taking account of the economic content on an objectifiable basis.
ED 70 in conj. with ED 71 and ED 72	• In general, the future standardised regulations on expense and revenue recognition support comparability of financial statements in the public sector. • In general, the general concept in ED 70 on recognising revenue generated on a basis of a performance obligation as well as differentiated and extensive guidelines on revenue recognition which – with few exceptions – are to be applied on a uniform basis on all transactions with a performance obligation, result in improved user friendliness and has a positive impact on data quality.

IPSAS 9 does not ensure fit-for-purpose accounting (in part.)



Scope	• The standard has no regulations for the area of “other” expenses.
Presentation	• The standard does not specify any regulations on the specific classification of revenue so that the reporting entity can select the presentation using judgement taking account of the requirements in IPSAS 1. This leads to a restriction of the targeted comparability of the financial statements of different entities.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	**Scope** **Separation of non-exchange and exchange transactions** (cf. IPSAS 11, 23)	**Recognition** **Recognition of revenue from service** (cf. IPSAS 11)
Transparency, (appropriate) informational content for users and understandability	Yes	Yes
	• Account taken of the special features relating to the public sector on the basis of separation by definition between non-exchange and (additionally differentiated) exchange transactions • Delimitation from IPSAS 23 allows a transparent presentation of the different sources of income	• Transparency through revenue realisation in line with the PoC method
Data quality	No	Yes
	• IPSAS 9 has no regulations for the area of “other” expenses.	• Presentation of gains and losses generated on an accrual basis due to revenue realisation in line with the PoC method
Comparability	Yes	Yes
	• Scope and definition clearly defined	• Judgement in assessing PoC • Specific regulations according to which the percentage of completion is to be assessed should reduce this
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		• Due to settlement practise in the state of Hesse, it would be possible to determine the relevant value on a practical basis without a high level of work
Comments / Information	• Future standardised regulations on expense and revenue recognition in the context of ED 70 (replaces IPSAS 9 and IPSAS 11) generally support comparability of financial statements in the public sector. • ED 70 contains uniform regulations for recognising revenue generated on a basis of a performance obligation resulting in improved user friendliness and having a positive impact on data quality.	

Measurement	Presentation	Disclosures in the notes
No difference	Consideration of the requirements of IPSAS 1	Extended disclosures in the notes
	Yes	Yes
	• No specifications on the specific classification of revenue (consideration of IPSAS 1) • Flexibility allows highlighting the individual focus areas, thus producing the highest level of transparency	• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
	n/a	Yes
		• Additional determination of information required for the disclosures in the notes; this generally relates to existing ACTUAL data
	No	Yes
	• Presentation taking account of the requirements in IPSAS 1 using judgement • Comparability thus restricted	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**

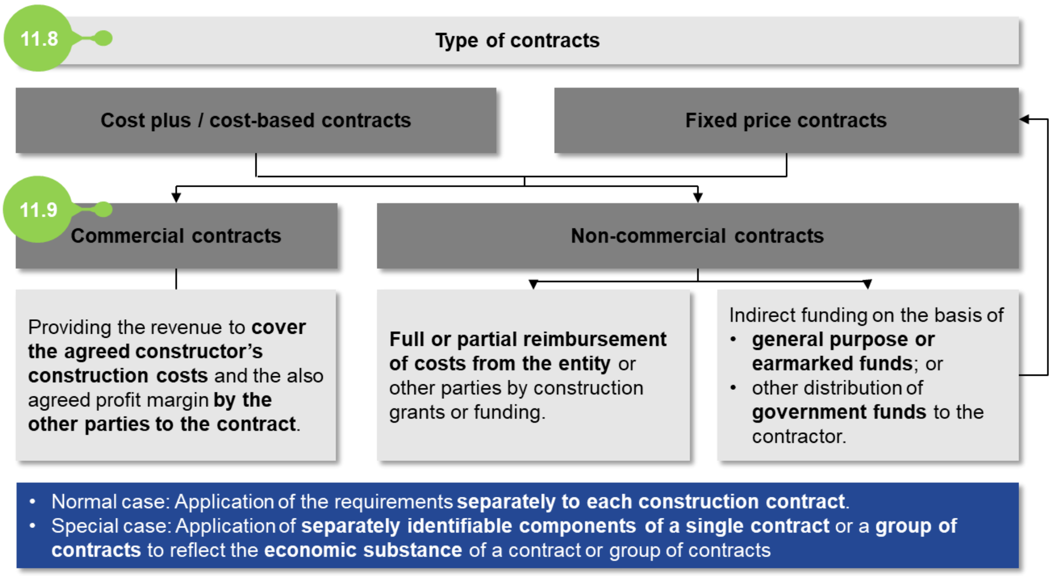
7.3 IPSAS 11: Construction Contracts

7.3.1 Theoretical background

Scope

In line with IPSAS 11.1, the standard is to be applied to construction contracts. A construction contract is defined as a contract specifically aligned to the construction and completion of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their purpose or use (e.g. buildings, roads, tunnels, bridges, dams or water supply systems) (IPSAS 11.4). Construction contracts also include contracts for rendering services that are directly related to the construction and completion of the asset and contracts for the destruction or restoration of assets and the restoration of the environment following the demolition of assets (IPSAS 11.6). IPSAS 11 is especially relevant when construction contracts extend over several periods.

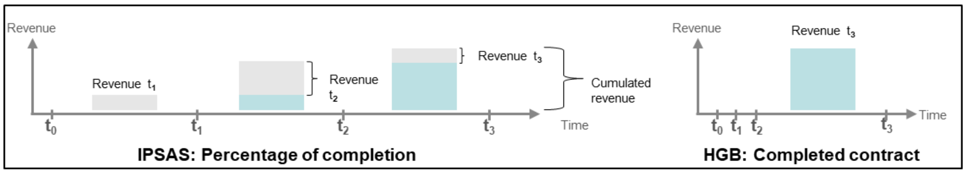
Construction contracts are classified as cost plus or cost-based contracts and fixed price contracts (IPSAS 11.8). The following diagram contains an overview.



Recognition

The following diagram provides an overview about recognising contract revenue and contract expenses of construction contracts in line with IPSAS 11.30 ff.

11.30 **Contract revenue and contract expenses which can be reliably estimated** are to be recognised in line with the **percentage of completion (PoC)** as **revenue and expense** on the reporting date. An **expected deficit** of a construction contract is to be recognised **immediately as expense**.



11.38 **The stage of completion may be determined in a variety of ways.**

- The proportion that **contract costs incurred** bear to the estimated total contract costs
- Surveys on **work performed**
- Completion of a **physical proportion** of the contract work

Progress payments and advances received often do not reflect the work performed.

Depending on contract type, an examination is to be made if contract revenue and contract costs can be reliably determined.

Can contract revenue and contract expenses be reliably determined?

11.31 **Fixed price contract**

Total contract revenue can be measured reliably.

11.32 **Cost plus or cost-based contract**

It is probable that the economic benefits or service potential associated with the contract will flow to the entity.

Contract costs to completion and the stage of contract completion can be measured reliably.

The (contract) costs attributable to the contract can be clearly identified and measured reliably.

Reliable estimate not possible: 11.40
- Revenue recognised only to the level of contract costs incurred that it is probable will be recoverable; and
- Contract costs recognised as an expense in the period in which they are incurred.

Expected deficit on a construction contract:
- Immediate recognition as expense.

Measurement

IPSAS 11.16-.22 contains regulations on measuring contract revenue. In general, contract revenue is measured at the fair value of the expected consideration.

11.16

Contract revenue comprises:
- the initially **revenue agreed in the contract**; and
- **payments for variations in contract work**, claims and incentive bonuses to the extent that it is probable they will result in revenue and can be reliably determined.

Contract revenue is measured at the **fair value** of the expected consideration.

- The measurement of contract revenue is affected by a **variety of uncertainties**.
- **Frequent adjustment of estimates** as events occur or uncertainties are resolved.

Increase or decrease in contract revenue resulting from
- variations, cost increases or penalties;
- change in the scope of the work to be performed under the contract;
- claims; and
- incentive bonuses.

The calculation of contract costs is specified in IPSAS 11.23-.29. The standard differentiates between direct, indirect and other costs.

11.23

Contract expenses comprise:
- the **direct costs** relating to a specific contract;
- **indirect and general costs** attributable to contract activity in general; and
- **other costs** that are specifically chargeable to the customer under the terms of the contract.

Direct costs*	Indirect costs*	Other costs*
• Construction labour costs • Material costs; • Depreciation; • Transportation costs; • Costs of hiring plant and equipment; • Costs for rectification and guarantee work; and • Claims from third parties.	• Insurance; • Costs of design that are not directly related to a specific contract; and • Construction overheads.	• General administrative costs; • Selling costs • Research and development costs; and • Depreciation of idle plant and equipment that is not used on a particular contract.

*Schematic presentation - non-exhaustive list

Presentation

Contract revenue and contract costs in connection with a contract are to be recognised as revenue and expenses in line with the stage of completion on the reporting date (IPSAS 11.30).

Disclosures in the notes

Required are disclosures on the amount of contract revenue recognised as revenue in the reporting period and the method of determination (IPSAS 11.50). In addition, disclosures are required on contracts in progress (IPSAS 11.51). Also required is disclosure of the reliably estimated gross amounts of contract revenue and contract costs as an asset or a liability (IPSAS 11.53).

Outlook IFRS 15 (ED 70: Revenue with Performance Obligations)

The basis for IPSAS 11 is IAS 11 which is to be applied by the private sector. For financial years beginning on or after 1 January 2018, already decisive for revenue recognition for the private sector in line with international accounting standards is IFRS 15 which replaces both IAS 18, and IAS 11 as well as the corresponding interpretations. These new regulations of accounting for revenue recognition are expected to be introduced in IPSAS in the medium term and are currently being discussed on the basis of IPSASB Exposure Draft 70: Revenue with Performance Obligations (ED 70). This would mean that in future the IPSAS regulations breaking down revenue realisation across several standards (currently IPSAS 9 and IPSAS 11) would no long apply so that the explanations on ED 70 made in Section D 7.2.1 would similarly apply.

Differences HGB / IPSAS

	IPSAS	HGB
Scope		
	Accounting of long-term construction contracts and services related to the construction and completion of an asset by the customer → Regulations on accounting for contract revenue, contract costs and the corresponding recognition of a receivable. (IPSAS 11.1, 11.4, 11.6, 11.53)	- Application of general regulations to recognise assets (Section246 (1) HGB) as well as revenue and expenses in line with Section 252 (1) No. 5 HGB. - Regulations on capitalising allocable cost as work in progress in inventories in line with Section 253 (1) HGB in conj. with Section 255 (2) HGB.
Recognition and measurement		
Revenue realisation	Percentage-of-completion (PoC) method: Recognition of reliably estimated revenue and expenses during the construction progress in line with the stage of completion (time of realisation). (IPSAS 11.30) When contract revenue and contract costs cannot be estimated reliably, revenue is recognised only at the level of contract costs incurred that it is probable will be recoverable; and contract costs are recognised as an expense in the period in which they are incurred. (IPSAS 11.40)	Completed-contract method as normal case, i.e. with long-term construction in which the overall order is not sub-divided into part acceptances, revenue is recognised from the point in time of the transfer of the entire work and the acceptance by the contractor. PoC method as part profit realisation permitted only with defined part performance.

	IPSAS	HGB
Presentation		
	Contract revenue and contract costs in connection with a contract are to be recognised as revenue and expenses in line with the stage of completion on the reporting date (IPSAS 11.30). In addition, IPSAS 11 does not contain separate regulations for recognition in the statement of financial performance. Recognition of trade receivables at the appropriate level (IPSAS 11.53).	Recognition of revenues and expenses in line with the classification of Section 275 HGB. In line with the completed contract method, contract costs incurred until the point in time revenue is realised are to be recognised as work in progress within inventories.
Disclosures in the notes		
	Disclosure on the amount of contract revenue recognised in the reporting period and disclosures on the method of determination. (IPSAS 11.50) Disclosures on contracts in progress. (IPSAS 11.51) Disclosure of the reliably estimated gross amounts of contract revenue and contract costs as an asset or a liability. (IPSAS 11.53)	Description of the accounting policies and recognition method Breakdown of revenue by area of activity and by geographical market, to the extent that areas of activities and specific geographical markets vary considerably, taking account of the organisation of sales, rental or leasing of products and the provision of services (Sections 284, 285 HGB)

7.3.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

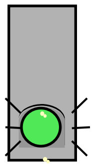
Scope

Determining whether in performing its activities the state of Hesse also assumes activities within the scope of IPSAS 11, and thus has to present relevant facts in line with the requirements for accounting for long-term construction contracts, brought with it intensive analysis and in particular a discussion of the exact activity of the state in the context of construction contracts. As a result of the analysis, it should be noted that even though the state of Hesse operates within the meaning of IPSAS 11 in the context of long-term contracts, the current contractual and settlement arrangements – with the exception of additional disclosures in the notes – require no adjustment in the transition from national to international accounting.

7.3.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 11 <u>ensures</u> fit-for-purpose accounting (in part.)



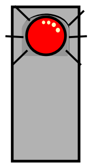
Scope

- As with IPSAS 9, for IPSAS 11 it can be stated that the separation by definition between non-exchange and (additionally differentiated) exchange transactions takes account of the special features relating to the public sector, allowing a transparent presentation of different sources of financing and promotes a transparent presentation of the different sources of income.

Revenue realisation

- As is also the case for revenue realisation for services in line with IPSAS 9, the application of the PoC method to long-term construction contracts generates a transparent presentation of results generated on an accrual basis. Specific regulations on criteria to be met for revenue realisation in line with the stage of completion avoid realisation of revenue which is not sufficiently definite.

IPSAS 11 <u>does not</u> ensure fit-for-purpose accounting (in part.)



Scope

- A separate standard for long-term construction contracts brings with its additional definition work. For this reason, even if – as highlighted above – the fundamental delimitation of non-exchange and exchange transactions and the resulting revenue generated is to be highlighted positively, the question should nevertheless be raised as to whether the existence of a separate standard for accounting for long-term construction contracts for the public sector is essential or whether the general regulations on revenue recognition from exchange transactions – with the provision of sufficient specifications and application examples – are sufficient.
- With the intended alignment of the regulations on revenue recognition to those of IFRS 15, a corresponding breakdown - as is currently implemented between IPSAS 9 revenue from exchange transactions and IPSAS 11 construction revenue - will no longer apply so that the explanations on ED 70 made in Section D7.2.3 would similarly apply.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	**Scope** **Separation of non-exchange and exchange transactions** (cf. IPSAS 11, 23)	**Recognition** **Revenue realisation in connection with construction contracts** (cf. IPSAS 9)
Transparency, (appropriate) informational content for users and understandability	Yes	Yes
	• Account taken of the special features relating to the public sector on the basis of separation by definition between non-exchange and (additionally differentiated) exchange transactions • Delimitation from IPSAS 23 allows a transparent presentation of the different sources of income • The separate standard for long-term construction contracts also brings with it additional definition work in relation to IPSAS 9	• Transparency through revenue realisation in line with the PoC method
Data quality	n/a	Yes
		• Presentation of gains and losses generated on an accrual basis due to revenue realisation in line with the PoC method • Specific regulations avoid realisation of revenue which is not sufficiently definite
Comparability	Yes	Yes
	• Scope and definition defined; • However, different dimensions of the role of the reporting entity can result in application or non-application (does the entity operate as a “contractor”)?	• Judgement in assessing PoC • Specific regulations according to which the percentage of completion is to be assessed should reduce this
Conclusion	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion	• Questionable whether a separate standard for accounting for long-term construction contracts for the public sector is essential	• Due to settlement practise in the state of Hesse, it would be possible to determine the relevant value on a practical basis without a high level of work
Comments / Information	• Future standardised regulations on expense and revenue recognition in the context of ED 70 (replaces IPSAS 9 and IPSAS 11) generally support comparability of financial statements in the public sector. • ED 70 contains uniform regulations for recognising revenue generated on a basis of a performance obligation resulting in improved user friendliness and having a positive impact on data quality.	

Measurement	Presentation	Disclosures in the notes
Differences in the measurement result due only to recognition	Presentation in the statement of financial position - For presentation in the statement of profit or loss Cf. IPSAS 9 in conj. with IPSAS 1	Extended disclosures in the notes
	Yes	Yes
	• In addition to the requirement to recognise contract revenue and contract costs as revenue and expenses in line with the stage of completion, specific requirement to recognise receivable/liability at the appropriate level	• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
	n/a	n/a
		• Additional determination of information required for the disclosures in the notes (e.g. disclosures on “advance payments received”)
	Yes	Yes
	• Comparability secured with clear regulations	• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**

7.4 IPSAS 23: Revenue from Non-Exchange Transactions

7.4.1 Theoretical background

Scope

IPSAS 23 is to be applied to revenue from non-exchange transactions (IPSAS 23.2). Non-exchange transactions within the meaning of IPSAS are defined as follows: an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange (IPSAS 9.11). Key examples are taxes, levies, fines, grants and donations.

Taxes

The term "taxes" is to be understood as economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government (IPSAS 23.7).

Transfers

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. They may be cash or non-cash inflows. Transfers include grants, fines, bequests, gifts or donations (IPSAS 23.7).

Recognition

The recognition criteria for taxes are defined as follows:

- Occurrence of a taxable event;
- Probability of inflow of an economic benefit or service potential;
- Reliable recognition of the fair value (IPSAS 23.59 in conj. with IPSAS 23.31).

The recognition criteria for transfers are defined as follows:

- The transferred resource corresponds to the definition of an asset. Transfers correspond to the definition of an asset in line with IPSAS 23.78, when the entity controls the resources as a result of a past event (the transfer) and expects to receive a future economic benefit from the resources;
- Probability of inflow of an economic benefit or service potential;
- Reliable recognition of the fair value (IPSAS 23.76 in conj. with IPSAS 23.31).

Measurement

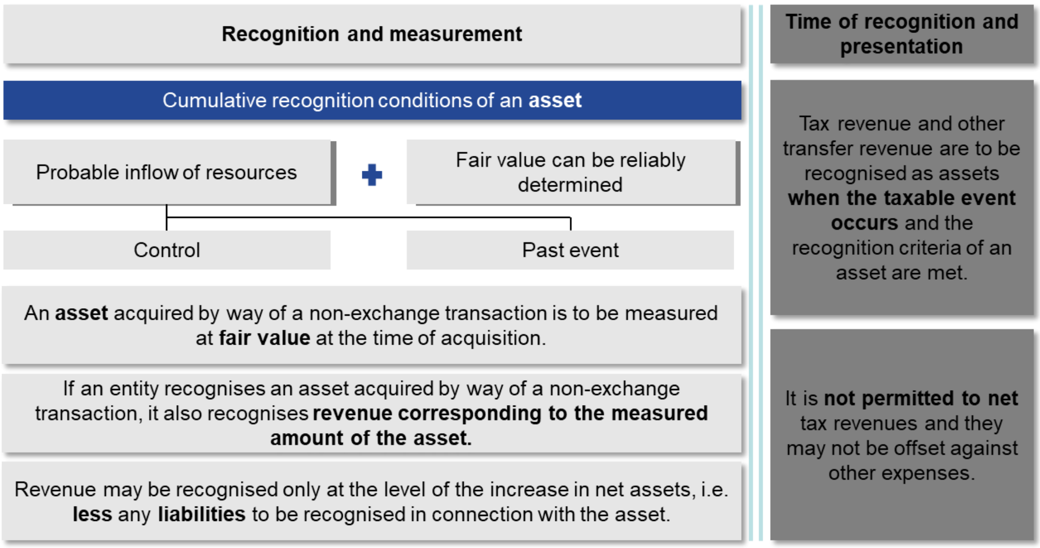
Taxes

Assets arising from tax transactions are measured at fair value as at the date of acquisition. Thus, initial and subsequent recognition is implemented on the basis of the best estimate of the inflow of resources determined using statistical models (IPSAS 23.67).

Transfers

Transferred assets are measured at fair value as at the date of acquisition. For this reason, for the reporting entity to recognise and measure assets, accounting policies in line with IPSASs need to be developed (IPSAS 23.83).

The following diagram gives a summary overview on the recognition criteria, the measurement and the presentation of revenues from non-exchange transactions.



Outlook ED 71: Revenue without Performance Obligations

In the course of assuming the regulations of IFRS 15 on revenue recognition in connection with performance obligations in the IPSAS, a new regulation for recognising revenue without performance obligations is planned. This is currently being discussed on the basis of the IPSASB Exposure Draft 71: Revenue without Performance Obligations (ED 71). In line with ED 71, revenue recognition requires that

- there is an asset in connection with the transaction and
- the inflow is not an owner contribution.

If these conditions are met, it must be examined if the transaction arises from a binding arrangement and if the arrangement contains a present obligation. If the transaction does not result from a binding arrangement or if the arrangement does not contain a present obligation, then the revenue is to be realised with the transfer of control over the performacne provided to the recipient. On the other hand, if the arrangement includes a present obligation, then the revenue is to be recognised as soon as the present obligation is satisfied.

Differences IPSAS / HGB [31]

	IPSAS	HGB
Scope		
Income from non-exchange transactions	The scope of IPSAS 23 covers revenue from non-exchange transactions. Excluded from the application is revenue from exchange transactions such as the sale of goods, rendering services or the use of assets. (IPSAS 23.2, 23.5)	In HGB there is no explicit separation between exchange and non-exchange transactions as it is the case in line with IPSAS (IPSAS 9 and IPSAS 23).
Recognition		
Taxes	Recognition criteria: • Occurrence of the taxable event • Probability of inflow of an economic benefit or service potential • Reliable recognition of the fair value of the asset (IPSAS 23.59 in conj. with IPSAS 23.31)	No explicit regulation in HGB, recognition of claims and obligations from tax transactions in line with general principles to recognise assets and liabilities according to national commercial law, taking account of the realisation and imparity principle. Recognition of tax assets • with the changeability of the respective tax asset in line with the individual tax laws (taxable event) • with independent measurability of a concrete benefit, i.e. specific in accounting terms and lasting beyond the reporting date • on objectifiable data basis and sufficiently definite • taking account of different collection forms (tax return, tax prepayment, assessment) and the consequent knowledge of the reporting entity • taking account of insights from adjusting events obtained after the accounting period in the context of preparing the annual financial statements • in line with the income sovereignty of the reporting entity Result: consistent recognition of assets and liabilities in line with HGB and IPSAS (Sections 246, 249 HGB, Section 252 (1) No.4 HGB)

[31] In line with HGB regulations, the state of Hesse drafted corresponding regulations with reference to the special features relating to the public sector. Thus the presentation of revenue from non-exchange transactions in line with the Accounting Treatment Handbook, in agreement with the Hesse Accounting Office and audit companies, is assessed as an interpretation of the commercial law principles complying with the general principles of proper accounting. In the absence of concrete specifications of commercial law, at this point partial reference is made to the regulations in the Accounting Treatment Handbook.

	IPSAS	HGB
Transfer payments	General recognition criteria: • Satisfying the definition of an asset • Probability of inflow of an economic benefit or service potential • Reliable recognition of the fair value of the asset (IPSAS 23.76 in conj. with IPSAS 23.31)	No explicit regulations in HGB; application of the general principles in line with HGB without deviations in comparison to IPSAS
Special items / investment grants	No regulations in IPSAS	Option: Reduction of cost or recognition in liabilities as special items, if net cash with specific reference to a tangible fixed asset is received which does not need to be paid back or only under certain conditions.

Measurement

Taxes	Initial and subsequent recognition at the level of the best estimate of the inflow of resources determined using statistical models. (IPSAS 23.67-.70)	Initial recognition: Nominal amount Subsequent recognition: Fair value taking account of • Write-downs and • Provisions for tax refunds) Delimitation of the tax revenue of the reporting entity which can actually be realised on an objectifiable basis.

Presentation

	The standard contains no specific recognition requirements; generally, the regulations of IPSAS 1 apply.	Inflows of resources from non-exchange transactions are to be recognised as revenue; corresponding outflows as expenses. Revenue and expenses / receivables and obligations are recognised in line with the classification of national accounting law (HGB) (Sections 266, 275 HGB)

Disclosures in the notes

	Disclosure of: • revenue from non-exchange transactions recognised during the period by major classes; • the amount of receivables recognised in respect of non-exchange revenue; • amount of liabilities recognised in respect of transferred assets subject to conditions; • assets subject to restrictions. (IPSAS 23,106) In addition, disclosure: • of the accounting and recognition policies;	Required disclosures: • Accounting policies; • Classification of tax revenue by tax types; • Comparison of “co-financed” expenses with the corresponding revenue; • Categorisation and explanations of important services / products. (Cf. Section 284 (2) No. 1 HGB)

	IPSAS	HGB
	• for the major classes of revenue from non-exchange transactions, on which basis the fair value of inflowing resources was measured; • on information on the nature of tax relating to major classes of taxation revenue that cannot be measured reliably; • on the nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind. (IPSAS 23,107)	

7.4.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Taxes – realisation and recognition

The highlighted objectivisation on the basis of a sufficiently secured status of knowledge of the tax authority within the scope of the regulations in line with national commercial law (HGB) allows capitalisation of a tax asset to the extent that in addition to its economic cause (origin) in the reporting year, its level is sufficiently determinable. When applying the general principles of proper accounting, receivables from taxes and parafiscal charges are recognized

— with registration taxes (value-added tax, wage tax, capital gains tax), when the registration is received;

— with upfront payments (e.g. for income tax or corporation tax) in stages at the individual due dates;

— with assessment taxes (e.g. income tax, corporation tax, inheritance tax and gift tax) when the tax assessment notice is finalised and approved for issue;

— and account is taken of remaining risks with a prudent recognition of the tax assets and accounting for provisions (e.g. for tax refund obligations).

This objectified recognition and measurement of tax revenue and receivables/expenses and liabilities with the valuation in line with national commercial law was also retained in the context of accounting in line with IPSAS. An initially anticipated adjustment of the recognition on the basis of applying the estimation technique provided for in IPSAS was avoided in the context of an interpretation in line with the regulations of IPSAS 23, as the values recognised in line with commercial law, taking account of the knowledge until 31 January of the following year, already correspond to a best estimate within the meaning of IPSAS 23.

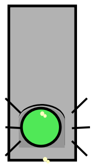
Overall

The application of IPSAS 23 resulted – in comparison to accounting in line with national commercial law – in presentation differences due only to the separation of non-exchange and exchange transactions defined in IPSAS.

7.4.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 23 ensures fit-for-purpose accounting (in part.)



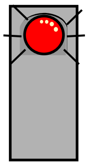
Scope

- In line with the assessment on IPSAS 9 and IPSAS 11, IPSAS 23 the separation between non-exchange and (additionally differentiated) exchange transactions in the context of IPSAS is to be highlighted positively. The separate regulations for the non-exchange transactions which are relevant primarily for the public sector increase the importance of the same and secure a transparent presentation.

ED 71 in conj. with ED 70 and ED 72

- In general, the future standardised regulations on expense and revenue recognition increase comparability of financial statements in the public sector.
- Furthermore, ED 71 offers specific guidelines which provide user-friendliness and can increase data quality.

IPSAS 23 does not ensure fit-for-purpose accounting (in part.)



Special items

- Not recognising special items for investment grants received for property, plant and equipment restricts the transparency of accounting in respect to the accounting recognition of the grants in the statement of assets and liabilities.
- The full realisation of gains when receiving the investment grant and satisfying its conditions negatively impacts recognition in line with the accrual principle of the grant over the useful life of the asset.

Recognition and measurement of tax assets

- The possible recognition of tax revenue and receivables using statistical models can result in only limited objectifiable accounting and – as a result of the lack of concrete details – can allow wide-ranging judgement This can jeopardise a targeted comparability of the financial statements of different entities.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	**Scope** **Separation of non-exchange and exchange transactions** (cf. IPSAS 9, 11)	**Recognition** **Special items** (cf. IPSAS 17)
Transparency, (appropriate) informational content for users and understandability	Yes	No
	• Account taken of the special features relating to the public sector on the basis of separation by definition between non-exchange and (additionally differentiated) exchange transactions • Separate regulations for non-exchange transactions relevant primarily for the public sector highlight their importance	• Third-party financing by recognising assets, including investment grants received, without establishing a liability item in the statement of assets restricts transparency
Data quality	n/a	No
		• Full realisation of gains when receiving the investment grant adversely impacts recognition in line with the accrual principle
Comparability	Yes	yes
	• Scope and definition clearly defined	• Clear regulation on non-recognition
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**
Conclusion		• Recognition obligation (incl. relevant regulation) relating to correct asset recognition desirable
Comments / Information	• Future regulations on expense and revenue recognition in the context of ED 71 in connection with ED 70 and ED 72 increases comparability of financial statements in the public sector. • ED 71 contains uniform guidelines which can improve user friendliness and increase data quality.	

Measurement Taxes	Presentation Differences are due to the separation of non-exchange and exchange transactions	Disclosures in the notes Extended disclosures in the notes
Yes		Yes
• Measurement at fair value transparent and understandable; but restricted when using statistical models		• Additional disclosures in the notes result in an informational gain • Disclosures in the notes have reasonable scope • Disclosures in the notes are verifiable
No		n/a
• Possible recognition of tax revenue and receivables using statistical models can result in only limited objectifiable accounting		• No additional determination of information required for the disclosures in the notes
No		Yes
• Far-reaching judgement as a result of the lack of concrete details		• Comparability secured with clear regulations
IPSAS does not offer fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
• Calculation on the basis of objectifiable data - comparable to the handling of the state of Hesse - should be enshrined as a principle		

7.5 ED 72: Transfer Expenses in conj. with additions IPSAS 19: Collective and Individual Services

7.5.1 Theoretical background

Scope

As IPSAS does not yet include any guidelines for reporting transfer expenses, on a supplementary basis use is made of the regulations in ED 72: Transfer Expenses, which are to be understood in connection with ED 70: Revenue with Performance Obligations and ED 71: Revenue without Performance Obligations. In this connection, account is also taken of the Amendments to IPSAS 19 assumed by IPSASB in January 2020 on collective and individual services.

In the context of the Non-Exchange Expenses project, IPSASB made the following classification of non-exchange services (IPSAS 42 IG 2):

- Grants, contributions and other transfers (ED 72 in conj. with ED 70 and ED 71)
- Collective services (Amendments to IPSAS 19)
- Individual services (Amendments to IPSAS 19)

A **transfer expense** is defined as an expense arising from a transaction in which the reporting entity – the transfer provider – provides a good, service, or other asset (e.g. cash) to another entity – the transfer recipient – without directly receiving any good, service, or other asset in return.

Collective services are services provided by a public sector entity simultaneously to all members of the community (common good) (e.g. defence or public goods such as street lighting).

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole (e.g. general education or health care).

Recognition

In ED 72, **transfer expenses** are divided into the following three groups:

- Transfer expenses on the basis of a binding arrangement / contract with (counter) performance obligation. The performance obligation serves the objective;
- Transfer expenses with a present obligation, without (counter) performance obligation;
- Transfer expenses without performance obligation and without present obligation.

Transfer expenses with performance obligation

On the basis of a binding arrangement entered into with the transfer recipient, a transfer provider can cause transfer expenses which require the transfer recipient to provide goods or services to third-party beneficiaries. When the definition of a performance obligation in line with ED 70 is satisfied, the transfer provider recognises and measures the related costs applying the public sector performance obligation approach (ED 72.10).

The public sector performance approach is based on the transfer recipient satisfying the performance obligation which is subject to a binding arrangement and contains a five-stage approach similar to that applied in the private sector in line with IFRS 15. Fundamentally the resource provider is to recognise an expense when the resource recipient satisfies identified performance obligations.

The following overview shows the five steps to recognise transfer expenses with performance obligations in line with ED 72.12:

1	2	3	4	5
Identifying the binding arrangement	**Identifying the performance obligations**	**Determine the transaction consideration**	**Allocating the transaction consideration**	**Recognising expenses**
Binding arrangements: Agreement with enforceable rights and obligations	Identification of performance obligations: bilateral situations; agreements in favour of third parties	The consideration promised in a binding arrangement with performance obligations may include fixed amounts, variable amounts, or both	The transfer provider is to allocate the transaction consideration to each individual performance obligation in the context of the overall obligation	Expense recognition at the transfer provider when the transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary.

Transfer expenses without performance obligation, but with present obligation

In many instances, assets are transferred to public sector entities in transactions without performance obligations pursuant to binding arrangements that impose requirements that they be used for particular purposes. Examples of such transfers can be transfers from national governments to provincial, state or local governments or transfers from state / provincial governments to local governments (as with ED 71.48).

According to ED 72.90, transfer expenses which do not constitute a performance obligation cover two groups:

— Transfer expenses in connection with a binding arrangement including a present obligation which however does not represent any performance obligation (grant agreements);
— Transfer expenses without binding arrangements / contracts (grant and allocation notices).

According to ED 72.91, a transfer expense with performance obligations is recognised at the earlier of the following dates:

— When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider is to recognise a liability representing its obligation to transfer the resource; and
— When the transfer provider ceases to control the resources; this is usually the date at which the resources are transferred to the transfer recipient (payment).

Transfer expenses without performance obligation and without present obligation

Guidelines on transfers without present obligations can be derived from ED 71. When a transfer provider recognises an outflow of resources as liability for a transaction without present obligation, the expense – with for example, gifts – is to be recognised directly (as with ED 71.86).

Collective and individual services

In line with IPSAS 19.18, collective services are ongoing services provided by a public sector entity. According to IPSAS 19.26, no provisions are to be recognised for costs which are incurred to continuing a reporting entity's ongoing activities in the future. For this reason, no provisions are to be recognised for intended collective services – instead collective services are to be recognised as current expense (IPSAS 19.AG10). The same applies to providing individual services as ongoing activities (IPSAS 19.AG12).

Measurement

Transfer expenses with performance obligation

When a transfer recipient satisfies a performance obligation, the transfer provider recognises the performance as an expense (ED 72.47). According to the public sector performance approach, the total amount from the binding arrangement is recognised (ED 72.48 ff.). A transfer provider takes account of the binding arrangement in order to determine the transaction consideration. The transaction consideration is the value of the transfer which the transfer provider expects to transfer to the transfer recipient to satisfy its obligation. The consideration agreed in a binding arrangement with performance obligations may include fixed amounts, variable amounts, or both.

Transfer expenses without performance obligation, but with present obligation

Where a transfer provider recognises an expense at the date it transfers the resources to the transfer recipient, the expense is to be measured at the carrying amount of the resources transferred (ED 72.102). If an expense to transfer resources is recognised, the amount is to be estimated (ED 71.102).

Transfer expenses without performance obligation and without present obligation

Expenses from transactions without present obligations are measured at the amount of the decrease in net assets recognised by the transfer provider (as with ED 72.87).

Collective and individual services

Depending on the specific structure, the collective and individual services can be measured on the basis of the costs incurred.

Differences IPSAS / HGB[32]

	IPSAS	HGB
Scope		
	Transfer expenses in line with ED 72: • With performance obligation • Without performance obligation, but with present obligation • Without performance obligation and without present obligation **Services of the state in line with IPSAS 19:** • Individual • Collective	HGB has no specific regulations on accounting for transfer expenses and state services; the following classification of non-exchange services is made in line with general principles: • Contracts in favour of third parties, contracts in favour of objectives • Grant notices, allocation notices and grant contracts • Gifts
Recognition		
	Transfer expenses: • With performance obligation: When the definition of a performance obligation in line with ED 70 is satisfied, the transfer provider recognises and measures the costs applying the public sector performance obligation approach (ED 72.10) • Without performance obligation, but with present obligation: Recognition at the earlier of the following dates: When the transfer provider has a present obligation to transfer resources to a transfer recipient or when the transfer provider ceases to control the resources. (ED 71.91) • Without performance obligation and without present obligation: Direct recognition of the corresponding expense to the extent a transfer provider recognises an outflow of resources as a liability for a transaction without present obligations. (as with ED 71.86)	No explicit regulations included in HGB, application of general principles of proper accounting: • In line with the causation principle, the notice of grant is the originating reason for all subsequent payments. As a result of the specified obligation in the notice, the measure to be promoted, its reason and the amount is stated. • In connection with creating a liability for notices of grant with conditions precedent and conditions subsequent, in line with the prudence principle provisions can be recognised if the fulfilment of the condition is not entirely remote resp. if the fulfilment of the condition must be expected, but the reason of the liability is still uncertain.

[32] In line with HGB regulations, the state of Hesse drafted corresponding regulations with reference to the special features relating to the public sector. Thus the presentation of expenses from non-exchange transactions in line with the Accounting Treatment Handbook, in agreement with the Hesse Accounting Office and audit companies, is assessed as an interpretation of the commercial law principles complying with the general principles of proper accounting. In the absence of concrete specifications of commercial law, at this point partial reference is made to the regulations in the Accounting Treatment Handbook.

	IPSAS	HGB
	• Services of the state: Recognition of current expenses for service rendered for ongoing activities (state functions), no provision recognised in line with IPSAS 19.26	
Measurement		
	• With performance obligation: When a transfer recipient satisfies a performance obligation, the transfer provider recognises the performance as an expense (ED 72.47). The transaction consideration is the value of the transfer which the transfer provider expects to transfer to the transfer recipient to satisfy its obligation. (ED 72.48 ff.) • Without performance obligation, but with present obligation: When a transfer provider recognises an expense at the date it transfers the resources to the transfer recipient, the transfer provider shall measure the expense at the carrying amount of the resources transferred. (ED 72.102) • Without performance obligation and without present obligation: Expenses from transactions without present obligations are measured at the amount of the decrease in net assets recognised by the transfer provider. (as with ED 72.87) • Services of the state: Depending on the specific structure, the collective and individual services can be measured on the basis of the costs incurred.	No explicit regulations included in HGB; in general application of measurement principles: Carrying amount of a liability at the level of the settlement amount; carrying amount of a provision at the level of the settlement amount required in line with prudent business judgement. (Section 253 (1) sentence 2 HGB)

	IPSAS	HGB
Presentation		
	• With performance obligation: Depending on the relationship between the transfer recipient's performance and the transfer provider's payment, recognition of the binding arrangement as asset or liability from a binding arrangement. Separate recognition of all unconditional obligations to pay consideration as separate payable. (ED 72.121) • Without performance obligation and without present obligation: Separate recognition of the corresponding liabilities. (ED 72.126) • Recognition of collective and individual services as current expense – no provision recognised. (IPSAS 19.26 in conj. with IPSAS 19.AG10-13)	• Complying with the rules on conditions precedent and conditions subsequent in relation to presenting liabilities and provisions • Recognising a provision is possible if the fulfilment of the condition is not entirely remote (condition precedent) resp. if the fulfilment of the condition must be expected, but the reason of the liability is still uncertain (condition subsequent).
Disclosures in the notes		
	Disclosure of qualitative and quantitative information on transfer expenses, on binding arrangements for transfer expenses with/without performance obligations and significant judgements to make it possible to understand the nature, amount, timing and uncertainty of expenses and cash flows from transfer expenses. (ED 72.127 ff.)	Disclosure of: • Accounting policies (Section 284 (2) No.1 HGB); • Explanation of the grant expenses; • Comparison of "co-financed" expenses with the corresponding expenses; • Explanation of important grant products • General disclosures on liabilities and provisions (Section 285 HGB).

7.5.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

Disclosures in the notes	In presenting the material collective and individual services, the transfer payments and the social benefits of the state of Hesse – in addition to the requirements of the standard – total expenses for the respective service and also the specific funding were compared against corresponding revenue. The respective financing of the specific state services follows the corresponding funding regulation connected to carrying out the government function. Key sources of funding are tax revenue in the context of the tax sovereignty of the state and third-party funding, particularly in the context of the joint federal/state tasks and order administration.

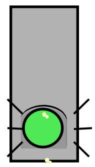
7.5.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

ED 72 <u>ensures</u> fit-for-purpose accounting (in part.)

Scope

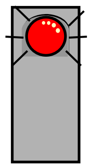
- The existence of standards for presenting issues impacting expenses which relate to the specific features of the public sector contributes to a high level of transparency.
- The ED 72 ensures that the gaps in regulating the recognition of expenses, i.e. grants, contributions, and other transfers, are closed and thus judgement and scope for interpretation are reduced.



ED 72 <u>does not</u> ensure fit-for-purpose accounting (in part.)

Disclosures in the notes

- Showing the level of expenses incurred for specific state services contributes to a more transparent presentation. However, a holistic presentation would be possible only with the mandatory comparison of expenses and related financing against corresponding revenue.



b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope Transfer expenses	Recognition Recognition of current expenses
Transparency, (appropriate) informational content for users and understandability	Yes • Enhanced transparency with separate standard for presenting facts impacts expenses which relate to the specific features of the public sector	Yes • No provisions recognised; instead recognition of current expenses for service rendered for ongoing activities allows transparent recognition on an accrual basis
Data quality	Yes • Closing regulation gaps in respect to recognising expenses (in the form of grants, contributions, and other transfers), thus reducing judgement and scope for interpretation	Yes • Recognition on an accrual basis secured
Comparability	Yes • Scope and definition clearly defined	Yes • Comparability secured with clear regulations
Summary	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
Conclusion		
Comments / Information		

Measurement	Presentation	Disclosures in the notes
No difference	**No difference**	**Transfer expenses + services of the state**
		Yes
		• Transparent presentation by showing the level of expenses incurred for specific state services • However, holistic presentation would be possible only with the mandatory comparison of expenses and related financing
		n/a
		• No additional determination of information required for the disclosures in the notes
		Yes
		• Comparability secured with clear regulations
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**
		• In line with the requirements of the standard, total expenses and also the specific funding were compared against corresponding revenue

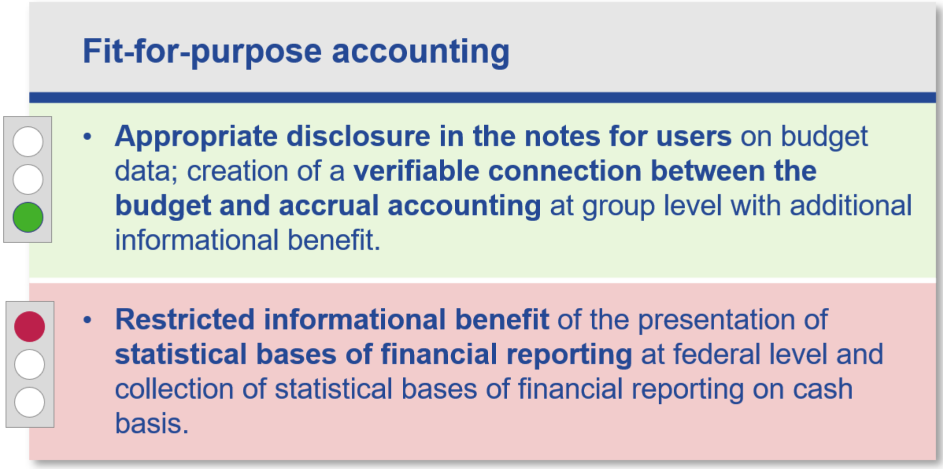
8. Supplementary information in the annual financial statements

8.1 Summary

In what follows there is an assessment of the IPSAS which provide supplementary information on the financial statements on the basis of additional disclosures in the notes:

IPSAS Standard
IPSAS 22: Disclosure of Financial Information about the General Government Sector
IPSAS 24: Presentation of Budget Information in Financial Statements

IPSAS 24 is assessed without reservation as fit for purpose, while the fitness for purpose of IPSAS 22 in its current version is called into question. The contributing positive elements and certain points of criticism are combined in the following diagram.

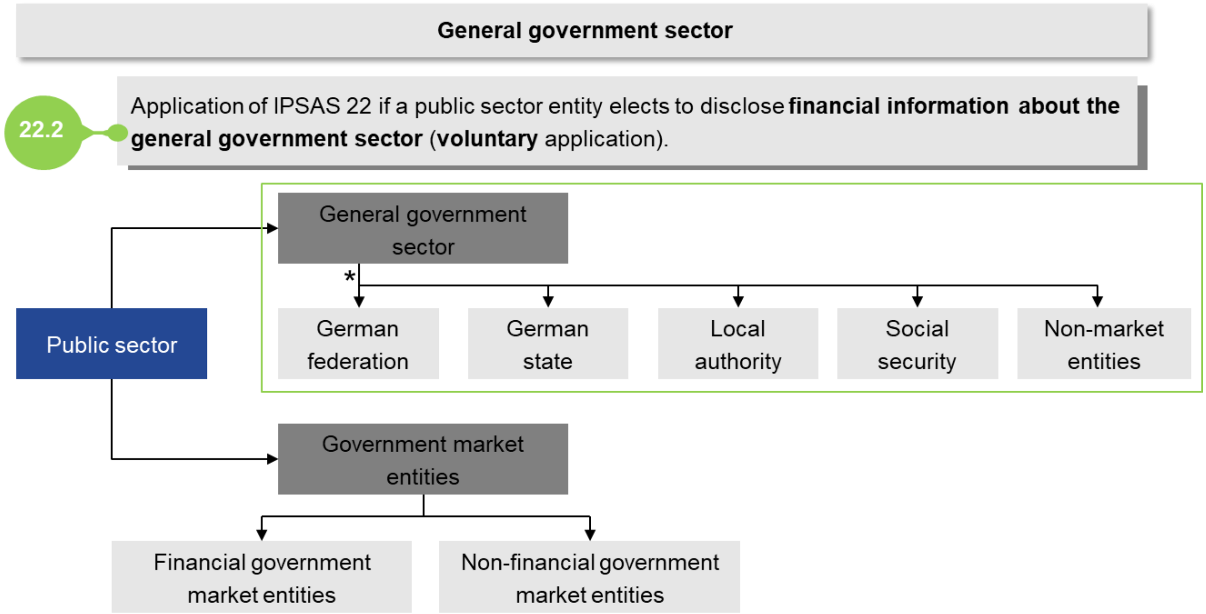


8.2 IPSAS 22: Disclosure of Financial Information about the General Government Sector

8.2.1 Theoretical background

Objective and scope

The objective of IPSAS 22 is to prescribe disclosure requirements in financial statements for governments electing to present (also) **financial statistical information** in their consolidated financial statements which relate to the general government sector (GGS). This should provide a useful connection between the IPSAS financial statements and the financial information presented on the basis of statistical reporting information and enhance the transparency of reporting.



*Entities controlled by the government entity

IPSAS 22.2 provides an **option** to apply IPSAS 22. However, if the public-sector / reporting entity decides to present statistical bases of financial reporting in its consolidated financial statements, the disclosure requirements of IPSAS 22 have to be (fully) complied with.

Disclosures in the notes

The standard requires **disclosures of financial information on the general government sector** (IPSAS 22.31) and in line with IPSAS 22.43, a **reconciliation of the statistical bases of financial reporting for the general government sector to the consolidated financial statements of the** regional authority / reporting entity.

The following diagram summarises the requirements of IPSAS 22.

22.31	**General requirement**	Presentation of **financial information** about the general government sector as **disaggregation of the consolidated financial statements** of a government.
22.23	**Accounting policies**	With presenting the information, the **accounting policies** adopted for **preparing the consolidated financial statements** are to be used.*
22.37	**Type of presentation**	Disclosure of the major classes of assets, liabilities, revenues, expenses, and cash flows reflected in the financial statements, either in the **notes**, in **separate columns in the primary financial statements** or using a **method considered appropriate in the jurisdiction**.
22.43	**Reconciliation**	GGS disclosures are **reconciled** to the **consolidated financial statements** of the government. Reconciliation of the GGS disclosures in the consolidated financial statements to the **statistical bases of** financial reporting **not required** (but not excluded).

*Except for few exceptions (IPSAS 22.24-.25)

- In presenting financial information of the general government sector, the requirements of IPSAS 6 in relation to entities in public financial and public non-financial corporations sectors may not be applied.
- Investments in the public financial corporation sector and in the public non-financial corporate segment are to be recognised as assets. This is to be recognised as carrying amount of the net assets of the entity in which an investment is held.

The disclosures on the statistical bases of financial reporting for the general government sector must include at least the following information:

22.35

Balance sheet
Assets by major class, showing separately the investment in other sectors
Liabilities by major class
Net assets / equity
Net change in inventories
Total revaluation increments and decrements and other items of revenue and expense
Statement of financial performance
Revenue by major class
Expenses by major class
Surplus or deficit
Cash flow statement
Cash flows from operating activities by major class
Cash flows from investing activities
Cash flows from financing activities

The statistical bases of financial reporting relating to the general government sector are to be reconciled to the consolidated financial statements for the individual accounting components (statement of financial position, statement of financial performance, cash flow statement) and should present separately reconciliation effects by breaking down the sub-sectors of the public sector separately for the respectively reported items (IPSAS 22.43).

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	Optional application of IPSAS 22 for entities which prepare financial statements on an accrual basis and at the same time disclose statistical bases of financial reporting for the general government sector.	For the statistical bases of financial reporting of the reporting entity, HGB does not have any corresponding disclosures in the notes to the annual financial statements.
Recognition		
	-	-
Measurement		
	-	-
Presentation		
	-	-
Disclosures in the notes		
	Disclosures on the government sector and reconciliation of the statistical bases of financial reporting for the general government sector to the consolidated financial statements of the reporting entity.	For the statistical bases of financial reporting of the reporting entity, HGB does not have any corresponding disclosures in the notes to the annual financial statements.

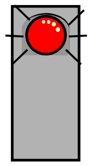
8.2.2 Notable practical insights from implementation

IPSAS 22 was not applied by the state of Hesse.

8.2.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 22 does not ensure fit-for-purpose accounting (in part.)



Objective and scope

- IPSAS 22 was developed specifically for the public sector. With its application at consolidated general government level additional transparency could be provided on the relationship between market-related and non-market related activities of the state and the connections of statistical bases of financial reporting and consolidated financial statements on an accrual basis. This would be accompanied by an increased informational benefit for the users. However, these advantages would be generated only at general government level; at the federal level (e.g. German state) merely a restricted informational benefit is achieved, as the presentation of the statistical bases of financial reporting in this case represent only a sub-sector and thus present solely fragments of the overall aggregate transactions.
- What is more, the option to apply IPSAS 22 obstructs a targeted comparability of the financial statements of different reporting entities. However, if application were mandatory, then comparability would be given at least only to a limited extent, as differences in the federal structure of the EU members states would result in a heterogeneous method of presentation.

Disclosures in the notes

- By deriving/linking statistical bases of financial reporting with accrual accounting, a qualitative improvement of the statistical bases of financial reporting is feasible in principle. However, a reconciliation of statistical basis of financial reporting for the core budget as a sub-area of IPSAS financial statements prepared on an accrual basis seems meaningful and results in a corresponding informational benefit and a possible improvement in quality only if the statistical bases of financial reporting data are also collected on an accrual basis. However, this condition is not satisfied in all member states (Germany: collection of the statistical bases of financial reporting for the core budget on a cash basis).

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition -
Transparency, (appropriate) informational content for users and understandability	No • At general government level IPSAS 22 allows additional transparency • On the other hand, at federal level (e.g. German federak state) restricted informational benefit as the presentation of the statistical bases of financial reporting would present solely fragments of the overall aggregate transactions	
Data quality	n/a	
Comparability	No • Due to choice on applying the standard, no comparability	
Summary	**IPSAS does not offer fit-for-purpose accounting**	
Conclusion	• Divergence between statistical bases of financial reporting and consolidated financial statements	
Comments / Information	• IPSAS 22 was developed specifically for the public sector. • Basic principle of IPSAS at general government level positive; but not meaningful at federal state level.	

Measurement	Presentation	Disclosures in the notes
-	-	**Presentation and reconciliation of the statistical bases of financial reporting to the values of the consolidated financial statements**
		No
		• Linking statistical bases of financial reporting with accrual accounting can result in a qualitative improvement of the statistical bases of financial reporting • Requirement: Statistical bases of financial reporting are collected on an accrual basis so that a reconciliation of statistical basis of financial reporting for the core budget as a sub-area of IPSAS financial statements prepared on an accrual basis is meaningful • This condition is not satisfied in all EU member states
		n/a
		No
		• Even if application were mandatory, comparability would be only limited, as differences in the federal structure of the EU member states would result in a heterogeneous method of presentation
		IPSAS does not offer fit-for-purpose accounting
		• Disclosure requirements too demanding
		• The lack of fitness for purpose is due primarily not to the option to apply IPSAS 22, but to the reporting of the entities at federal level, and, in Germany, the collection of the decisive collection of the statistical bases of financial reporting on a cash basis.

8.3 IPSAS 24: Presentation of Budget Information in Financial Statements

8.3.1 Theoretical background

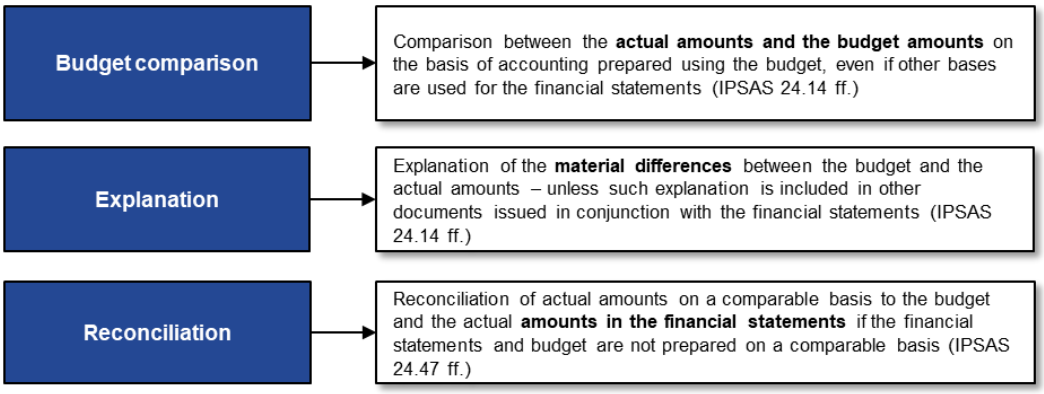
Objective and scope

The objective of IPSAS 24 is to supplement the annual financing statements prepared under the accrual basis of accounting with information relevant to the budget, i.e. data on the budget plan (target) and budget execution (actuals). With the corresponding information, the reporting entity increases the transparency of its financial statements. It thus also discharges its accountability obligations in respect to compliance with the budget to the general public (IPSAS 24.1).

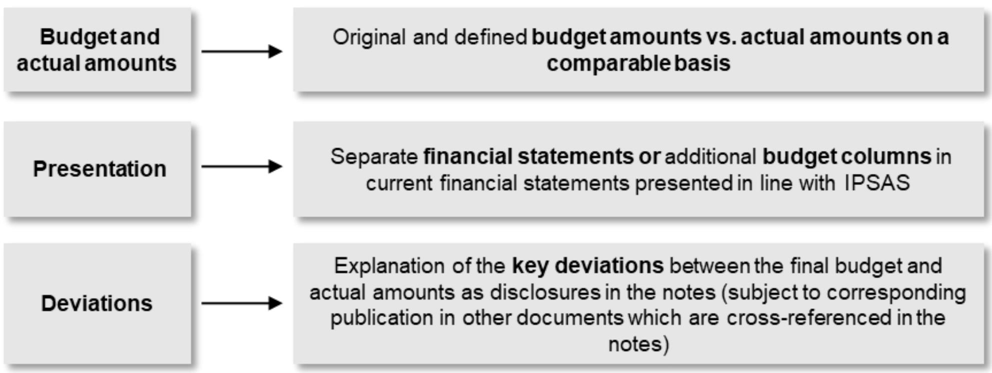
IPSAS 24 is to be applied by (all) public-sector entities that present financial statements under the accrual basis of accounting (IPSAS 24.2) and make their approved and accountable budgets publicly available whether this is mandatory or occurs on a voluntary basis (IPSAS 24.3). The standard is applied at different public-sector levels of the respective country (IPSAS 24.BC2).

Disclosures in the notes

The standard regulates the including of supplementary information on compliance with the legal budget authorisation framework in the accrual-based financial statements on the basis of the IPSAS. For this it requires a comparison between the actual amounts and the budget amounts on the basis of accounting prepared using the budget (IPSAS 24.14), an explanation of the key deviations between the final budget and actual amounts (IPSAS 24.14) and where the financial statements and the budget are not prepared on a comparable basis also a reconciliation of the actual amounts as presented in the comparison of budgeted and actual amounts (IPSAS 24.47).

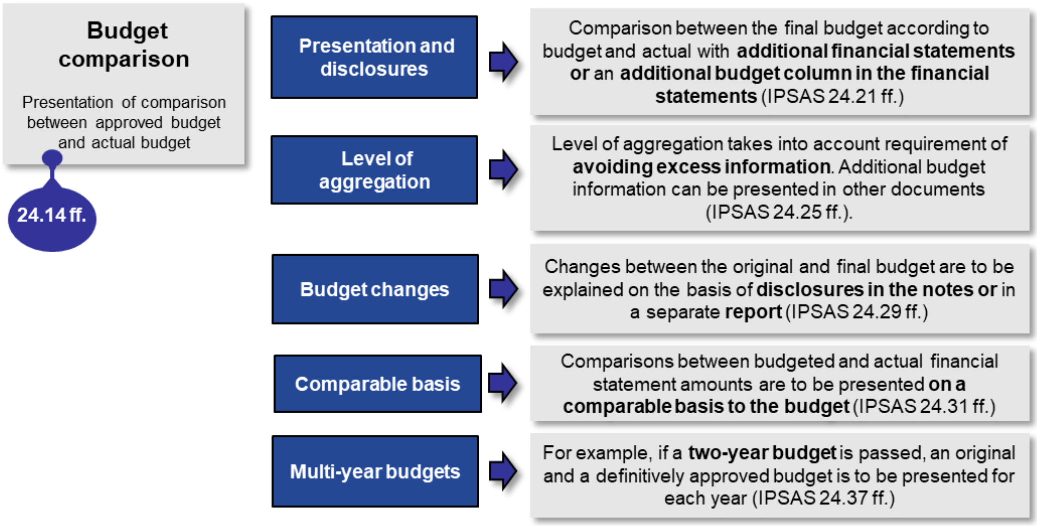


The **budget comparison** to be presented in line with IPSAS 24.14 compares the budget figures against the actual figures on a comparable basis after the end of the budget year. If there were changes to the original budget, an explanation on the background is to be presented (IPSAS 24.29).

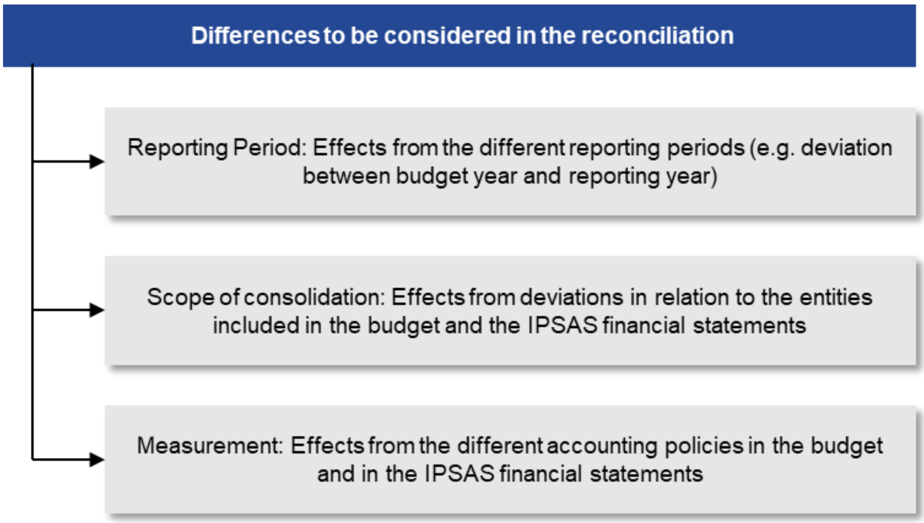


The inclusion of supplementary budget information in (annual) financial statements in line with IPSAS with a comparison against planned and actual budget data (budget comparison) takes place **independently of the accounting basis of budget management** (basis of budgeting) and so is also required when preparing a cash budget. In this case the budget comparison to be presented in the annual financial statements also takes place on a cash basis (a statement of revenue and expenditure), something recognised by the standard setter as practically relevant (IPSAS 24.31).[33]

The **requirements** of the standard for presenting the comparison of budget and actual amounts in line with IPSAS 24.14 ff. relate to the presentation form, the comparable basis, the aggregation level of the information and the consideration of budget changes and multi-year budgets:



The actual budget amounts presented on a comparable basis to the budget are to be reconciled to the actual amounts presented in the financial statements where the financial statements and the budget are not prepared on a comparable basis (IPSAS 24.47). The relevant **reconciliation** should show differences resulting from different reporting periods, different scopes of consolidation and particularly different accounting policies between actual budget and actual financial statement data (IPSAS 24.47-53).



[33] Cf. IPSAS 24.BC15

Depending on the accounting design underlying the budget presentation, the following amounts shown in the annual financial statements are to be reconciled:

— If the budget is prepared in line with accrual accounting, the total revenue, total expense and net cash flows from operating, investing and financing activities are to be presented in the reconciliation;

— If the budget is not prepared in line with accrual accounting, e.g. using cash accounting on the basis of a statement of revenue and expenditure (cash receipts / cash payments), only net cash flows from operating, investing and financing activities are to be presented and reconciled to each other.

Differences IPSAS / HGB

	IPSAS	HGB
Scope		
	IPSAS 24 is to be applied by public-sector entities that present financial statements under the accrual basis of accounting and make their approved and accountable budgets publicly available whether this is mandatory or occurs on a voluntary basis. (IPSAS 24.2-24.3).	For the budget data of the reporting entity, HGB does not have any corresponding disclosures in the notes to the annual financial statements.
Recognition		
	-	-
Measurement		
	-	-
Presentation		
	-	-
Disclosures in the notes		
	Presentation of budget comparison (target-actual) on the same basis (discharge) and reconciliation of the actual budget data on the basis of accrued financial statement data (cash flow statement with cash flow I to III and on a cash budget basis also statement of financial performance)	For the budget data of the reporting entity, HGB does not have any corresponding disclosures in the notes to the annual financial statements.

8.3.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

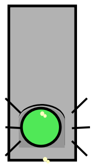
Disclosures in the notes	The presentation of disclosures to the notes in line with IPSAS 24, particularly the required reconciliations between the actual budget and the financial statement data, requires a technical basis for presenting and reconciling the posting data to the annual financial statements without any media gaps. This is conditional on good data quality and renders unnecessary manual delineation and allocation with its immanent error potential and work involved.

8.3.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS 24 ensures fit-for-purpose accounting (in part.)

Disclosures in the notes



- The disclosures in the notes required in line with IPSAS 24 create a meaningful connection of data of the budget comparison with discharging relevance (budget accounting) with further information/data of the (overall) financial statements prepared on an accrual bass and thus offer an additional informational benefit.
- With the calculatory reconciliation the different reconciliation effects (differences in accounting policies, reporting periods, scopes of consolidation) are shown in an understandable and verifiable fashion. The clear requirements on the structure of the reconciliation and the items to be reconciled improve the comparability of the financial statements of different entities.
- If the budget and financial statements – as is the case with cash budgeting - are based on different preparation and measurement principles, the reconciliation of the actual budget amounts of cash flows I to III in the statement of cash flows also provides a meaningful presentation.

b. Detailed assessment

Contributing factors for an assessment of fit-for-purpose accounting	Scope	Recognition -
Transparency, (appropriate) informational content for users and understandability	Yes	
	• Sensible addition which allows an informational gain	
Data quality	n/a	
Comparability	n/a	
Conclusion	**IPSAS offers fit-for-purpose accounting**	
Conclusion		
Comments / Information		

Measurement	Presentation	Disclosures in the notes
-	-	
		Yes
		• Meaningful connection of data of the budget comparison with discharging relevance (budget accounting) with further information of the (consolidated) financial statements prepared on an accrual basis • Calculatory reconciliation presents reconciliation effects in an understandable and verifiable fashion
		n/a
		• No additional determination of information required for the disclosures in the notes • Good data quality secured if reconciliation is based on presentation without media gaps; otherwise high level of manual work with the related error potential
		Yes
		• Clear requirements on the structure of the reconciliation increase comparability of the financial statements of different entities • If budget and financial statements are based on different measurement principles, the reconciliation of the actual budget amounts of the cash flows provides a meaningful presentation
		IPSAS offers fit-for-purpose accounting
		• Technical basis for presenting and reconciling the posting data to the annual financial statements without any media gaps requires good data quality and renders unnecessary manual delineation and allocation with its immanent error potential and work involved.

9. Findings in relation to the IPSAS Conceptual Framework

9.1 Theoretical background

Scope

The IPSAS Conceptual Framework (IPSAS CF) forms the central basis for the standard setter in the context of developing new and revising existing standards (IPSAS CF 1.1). Furthermore, IPSAS CF establishes the concepts for financial reporting for accounting in line with IPSAS (IPSAS CF 1.1). The Conceptional Framework is to be applied in financial reporting of public sector entities which apply IPSAS and is thus valid for preparing annual financial statements (general purpose financial statements - GPFS) and also for reporting in a broader sense (general purpose financial reports - GPFR) (IPSAS CF 1.8). At the same time, the framework provides guidance for issues which are not explicitly regulated in the standards or practical guidance (IPSAS CF 1.3). For the user the requirements in the individual standards take priority over the IPSAS CF.

Structure and concepts

The IPSAS CF is classified into the following eight topics:

	Content	Details
Chapter 1: Role and Authority		
	Support for treating phenomena not covered by IPSAS	○ Framework; requirements for recognition, measurement and presentation of transactions are stated in individual IPSAS ○ Definition of general purpose financial reports ○ Definition of scope
Chapter 2: Objectives and Users of General Purpose Financial Reporting		
	Objectives of financial reporting	○ Accountability ○ Support in decision making
	Users of financial reporting	○ Service recipients ○ Resource providers (tax payers) ○ Legislative ○ Members of parliament
Chapter 3: Qualitative Characteristics		
	Relevance	○ Information is relevant if it makes a significant contribution to achieving the objectives of financial reporting. Information can have confirmatory and/or predictive value.
	Faithful representation	○ To be reliable in financial reporting, information must be a faithful representation of the content it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error.
	Understandability	○ Information is understandable where it places users in the position of understanding its contents. Here a certain level of specialist knowledge can be assumed.
	Timeliness	○ Reporting is timely when information is available before it loses its usefulness for accounting and decision-making purposes.
	Comparability	○ Comparability enables users to identify similarities in, and differences between, two sets of events.

	Content	Details
		○ A distinction is made for consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. ○ A hierarchy is established for comparability and consistency. While comparability represents the objective, consistency is the tool to established comparability.
	Verifiability	○ Verifiability means that different knowledgeable and independent observers could reach general consensus, (although not necessarily complete agreement) that either ○ the information represents the phenomenon or event that it purports to represent without material error or distortion or ○ appropriate methods are used on the recognition, measurement and presentation.
Restrictions of information in general purpose financial accounting		
	Materiality	○ Information is material if its omission or misstatement influences the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period.
	Cost benefit	○ The benefits of financial reporting should justify the costs imposed by financial reporting. ○ It can be justified that one or more of the key principles are ignored for reasons of cost saving.
	Appropriate balance between the qualitative characteristics	○ The qualitative characteristics work together to contribute to the usefulness of information. ○ In some cases, balancing or trade-offs may be necessary.
Chapter 4: Reporting Entity		
	Reporting Entity	○ Government or other public sector organisation, program or identifiable area of activity.
	Key characteristics	○ Entity that raises resources (e.g. taxes) from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents (e.g. road building). ○ Service recipients (e.g. welfare beneficiaries) or resource providers (e.g. tax payers) dependent on GPFRs of the entity for information for accountability or decision-making purposes.
Chapter 5: Elements in Financial Statements		
	Asset	○ Resource presently controlled by the entity as a result of a past event. ○ Resource has service potential or the ability to generate economic benefits.
	Liability	○ Present obligation of the entity for an outflow of resources that results from a past event. ○ Can, but need not be legally binding. ○ No realistic alternative to avoid an outflow of resources. ○ To an external party (external obligation), no internal obligations.

	Content	Details
	Revenue and expense	○ Increase (decrease) in the net financial position of a public sector entity, other than increases (decreases) arising from ownership contributions (distributions to the owners) ○ Revenue and expense can arise from exchange and non-exchange transactions, other events such as unrealised increases and decreases in the value of assets and liabilities or the consumption of assets through depreciation and impairments. ○ The entity's result for the year (surplus or deficit) is the difference between revenue and expense.
	Ownership contributions and ownership distributions	○ Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners and which establish or increase an interest in the net financial position of the entity. ○ Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners and which return or reduce an interest in the net financial position of the entity. ○ Net financial position as difference between assets after adding other resources and deducting liabilities including other obligations (residual amount).
Chapter 6: Recognition in Financial Statements		
	Recognition	○ Process of incorporating and including items on the face of financial statements.
	Recognition criteria	○ The accounting time must satisfy the definition of an element. ○ The accounting item can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in financial statements.
Chapter 7: Measurement of Assets and Liabilities in Financial Statements		
	Objective of measurement	○ The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity and for decision-making purposes.
	Measurement bases	○ There is no single measurement basis suitable for meeting the (accounting) objective: • Assets: Historical cost, market value, replacement costs, net selling price or value in use. • Liabilities: Historical cost, cost of fulfilment, market value, cost or release or assumption price.
Chapter 8: Presentation in General Purpose Financial Reports		
	General purpose financial reports	○ More extensive than annual financial statements.
	Presentation	○ Defined as the selection, location and organisation of information that is reported in the GPFRs.

9.2 Notable practical insights from implementation

The following insights resulted from implementing the standard:

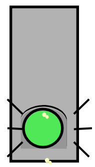
Application and implementation	The regulations of IPSAS CF have a subordinate and non-binding character in respect to the regulations of the individual standards. The practical insights gained from applying and implementing the regulations contained in the individual standards are treated directly in connection with the respective IPSAS. The IPSAS CF does not include any regulations over and beyond the individual standards which would have been of significance when preparing the IPSAS consolidated financial statements of the state of Hesse or which would have resulted in adjustment bookings. As a result of the lack of binding effect and hierarchy of the qualitative characteristics – also on the basis of the rules and principles stated in the appendix to IPSAS 1 – a largely prudent accounting similar to the qualitative requirements in the context of the national accounting principles based on the EU Accounting Directive (2013/34/EU) dated 26 June 2013[34] could be implemented.

[34] https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:32013L0034&from=fi

9.3 Fit-for-purpose accounting by applying IPSAS?

a. Summary of assessment

IPSAS CF ensures fit-for-purpose accounting (in part.)



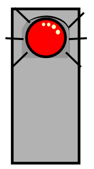
Role and Authority

- The IPSAS CF provides a meaningful framework and a catch-all provision for issues which are not regulated specifically in the relevant IPSAS. In its current form, it allows in principle fit-for-purpose accounting within the meaning of national accounting in line with commercial law.

Objectives and Users

- The legislative and executive are appropriately regarded as the primary users of public-sector accounting in respect to accountability and (own) information in the framework. The more far reaching opening of the scope of use, which also includes inhabitants and citizens as the general public and capital providers/investors as resource providers, highlighting the usefulness for decision making is to be deemed as producing the desired objective.

IPSAS CF does not ensure fit-for-purpose accounting (in part.)



Role and Authority

- The IPSAS CF does not have a central binding effect. The non-binding impact of IPSAS CF and its subordinate position in the hierarchy scope means that it allows fit-for-purpose accounting, but does not compel it.

Qualitative Characteristics

- The IPSAS CF does not prescribe the defined qualitative characteristics. As a result, neither the objectivisation of the information contained nor the prudence principle as the primary accounting principles are given prominence. The regulations thus differ from national accounting regulations in line with commercial law, which in this respect are based on the requirements under EU law of the EU Accounting Directive (2013/34/EU).

Reporting Entity

- The definition of the reporting entity in IPSAS CF – also in reference to the regulation both of annual financial statements and other financial reports - is not sufficiently specified so that as a result an overly extensive, not sufficiently specific framework is set. These points of criticism also impact considerations made in relation to the definition of the reporting entity in a EPSAS CF, which is related to a far-reaching scope and at the same time does not allow any helpful delimitation for the user - also in connection with consolidation transactions on the one hand and different federal levels of the member states on the other.

b. Detailed assessment

	Chapter 1: Role and Authority	Chapter 2: Objectives and Users of General Purpose Financial Reporting	Section 3: Qualitative Characteristics + Restrictions of information in general purpose financial accounting	Chapter 4: Reporting Entity
Assessment of fit-for-purpose accounting	No	Yes	No	No
	•CF provides a catch-all provision for issues which are not regulated specifically in the relevant IPSAS • But CF has a non-binding impact and a subordinate position in the hierarchy scope	• Appropriate consideration of the legislative and executive as the primary users of public-sector accounting • Expedient opening of the scope of users to include inhabitants and citizens as well as capital providers / investors	• In CF objectivisation of the information contained and the prudence principle as primary accounting principles are not given prominence	• Definition of the reporting entity is not sufficiently specified • Result is an overly extensive, insufficiently specific scope
Summary	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**	**IPSAS does not offer fit-for-purpose accounting**
Conclusion				
Comments / Information	• Current form of IPSAS CF allows fit-for-purpose accounting within the meaning of national accounting in line with commercial law, but does not compel it.		• Regulations differ from national regulations in line with commercial law which are based on the requirements under the EU Accounting Directive (2013/34/EU) .	• Points of criticism also impact considerations made in relation to the definition of the reporting entity in an EPSAS CF.

Chapter 5: Elements in Financial Statements	Chapter 6: Recognition in Financial Statements	Chapter 7: Measurement of Assets and Liabilities in Financial Statements	Chapter 8: Presentation in General Purpose Financial Reports
Yes	Yes	Yes	n/a
• Clear definition of the elements in annual financial statements	• Mandatory consideration of definition requirements and qualitative characteristics as recognition criteria	• Objective of measurement is to provide a true and fair view of the actual circumstances	
IPSAS offers fit-for-purpose accounting	**IPSAS offers fit-for-purpose accounting**	**IPSAS offers fit-for-purpose accounting**	**n/a**

D. Reconciliation HGB – IPSAS

The following section shows the reconciliation of the statement of financial position as at 1 January 2019 and 31 December 2019 as well the statement of profit and loss for the financial year 2019 according to German nation GAAP to the corresponding components of the IPSAS consolidated financial statements.

Effects from the conversion result from the inclusion of additional entities in the scope of consolidated of the federal state of Hesse (shown here as “inclusion of additional entities” with values according to German nation GAAP) and from the application of different accounting policies according to IPSAS (shown here as “further adjustments”). As well as the effects of recognition and measurement differences between HGB and IPSAS, the effects shown as “further adjustments” also include the effects of changes to presentation. In particular, this relates to the requirement under IPSAS to allocate receivables, liabilities and provisions to current and non-current components.

Reconciliation of the Statement of financial position as at 31 Dec. 2019

Statement of financial position

In € Mio.	HGB Consolidated financial statements for federal state of Hesse	Transition effect Inclusion of additional entities[35]	Further adjustments	IPSAS 1 Jan. 2019
ASSETS				
Non-current assets				
Intangible assets	73.7	8.6	0.2	82.5
Property, plant and equipment	19,251.1	2,739.9	-1,003.5	20,987.5
Investments accounted for using the equity method	1,616.4	0.0	-5.0	1,611.5
Other investments	7,636.7	188.0	-3,733.4	4,091.3
Non-current receivables	2,520.1	2.1	432.0	2,954.2
Receivables from non-exchange transactions	2,427.3	0.0	0.0	2,427.3
Receivables from exchange transactions	92.8	2.1	432.0	526.9
Current assets				
Inventories	174.1	445.9	-97.8	522.2
Current Investments	20.1	0.0	0.0	20.1
Current receivables	13,131.0	128.6	71.2	13,330.8
Receivables from non-exchange transactions	8,395.2	15.8	79.6	8,490.6
Receivables from exchange transactions	4,735.8	112.8	-108.4	4,740.2
Cash and cash equivalents	444.0	197.0	0.0	641.0
Other current assets	0.2	0.0	7.2	7.5
Total	**44,867.6**	**3,710.1**	**-4,329.1**	**44,248.6**

[35] German national GAAP.

Statement of financial position

1 Jan. 2019

In € Mio.	HGB Consolidated financial statements for federal state of Hesse	Transition effect Inclusion of additional entities[35]	Further adjustments	IPSAS
EQUITY & LIABILITIES				
Net assets	-120,143.3	737.7	-67,260.1	-186,665.7
Non-current provisions and liabilities				
Pension and benefit obligations	92,325.9	7.5	54,561.7	146,895.0
Provisions for other employee benefits	0.0	0.0	2,605.3	2,605.3
Other non-current provisions	0.0	0.0	3,822.4	3,822.4
Non-current loans	36,375.7	1.408.2	80.6	37,864.5
Taxes and transfer liabilities	8,679.0	16.4	-85.0	8,610.4
Liabilities from exchange transactions	11.4	0.0	0.0	11.4
Other liabilities	793.4	858.7	4.372.0	6,024.0
Current provisions and liabilities				
Pension and benefit obligations	0.0	0.0	3,375.3	3,375.3
Provisions for other employee benefits	2,350.9	29.5	-2,224.1	156.4
Other current provisions	7,527.6	101.5	-4,327.8	3,301.3
Current loans	2,270.0	0.0	250.0	2,520.0
Current portion of non-current loans	3,708.5	210.7	-520.9	3,398.4
Taxes and transfer liabilities	8,471.2	106.6	109.0	8,686.8
Liabilities from exchange transactions	375.8	44.8	239.9	660.6
Other liabilities	2,121.2	188.5	672.6	2,982.3
Total	**44,867.6**	**3,710.1**	**-4,329.1**	**44,248.6**

The €67,260.1 million decrease in equity is a result of the following:

— The rise in pension and benefit obligation provisions as at 1 January 2019 due to discounting at the matched-term interest rate at the reporting date reduces equity by €61,374.0 million.

— Accounting for interest and currency derivatives in full decreases equity by €3,730.1 million.

— Equity falls by €1,694.8 million due to the retrospective application of the component approach for property, plant and equipment.

— Reversing the special items increases equity by €1,577.2 million.

— The adjustment of the interest rate when measuring provisions for other employee benefits and other provisions reduces equity by €1,352.0 million.

— Recognising finance leases retrospectively results in a €596.3 million decline in equity.

— Changing plan assets to fair value improves equity by €210.0 million.

— The use of the percentage-of-completion method increases equity by €69.1 million.

In addition, the adjustment to equity includes effects from the capital consolidation of the additional entities in the amount of €369.5 million.

Reconciliation of the Statement of financial position as at 31 Dec. 2019

Statement of financial position

In € Mio.	HGB: Consolidated financial statements for federal state of Hesse	Transition effect: Inclusion of additional entities[35]	Transition effect: Further adjustments	IPSAS 31 Dec. 2019
ASSETS				
Non-current assets				
Intangible assets	**80.5**	**8.5**	**0.2**	**89.1**
Property. plant and equipment	19,325.9	2,837.0	-1,149.0	21,014.0
Investments accounted for using the equity method	1,719.8	0.0	-9.1	1,710.6
Other investments	8061.9	185.2	-4,328.4	3,918.7
Non-current receivables	2,499.7	2.9	602.7	3,105.2
Receivables from non-exchange transactions	2,378.6	0.0	0.0	2,378.6
Receivables from exchange transactions	121.1	2.9	602.7	726.7
Current assets				
Inventories	141.9	419.8	-97.4	464.3
Current Investments	18.2	0.0	0.0	18.2
Current receivables	14,591.9	143.5	103.2	14,838.6
Receivables from non-exchange transactions	8,608.7	24.6	95.2	8,728.5
Receivables from exchange transactions	5,983.2	119.0	8.0	6,110.1
Cash and cash equivalents	603.9	202.3	0.0	806.2
Other current assets	6.2	0.0	1.2	7.4
Total	**47,049.8**	**3,799.3**	**-4,876.6**	**45,972.4**

Statement of financial position

31 Dec. 2019

In € Mio.	HGB Consolidated financial statements for federal state of Hesse	Transition effect Inclusion of additional entities[35]	Further adjustments	IPSAS
EQUITY & LIABILITIES				
Net assets	-120,142.5	848.0	-86,987.4	-206,282.0
Non-current provisions and liabilities				
Pension and benefit obligations	93,089.8	7.8	71,246.0	164,343.6
Provisions for other employee benefits	0.0	0.0	3,025.9	3,025.9
Other non-current provisions	0.0	0.0	3,648.1	3,648.1
Non-current loans	35,908.6	1,392.8	129.0	37,430.4
Taxes and transfer liabilities	8,539.8	15.9	-84.7	8,471.0
Liabilities from exchange transactions	14.1	0.0	0.0	14.1
Other liabilities	790.6	827.3	7,167.6	8,785.5
Current provisions and liabilities				
Pension and benefit obligations	0.0	0.0	3,504.3	3,504.3
Provisions for other employee benefits	2,615.2	25.2	-2,506.7	133.7
Other current provisions	8,609.5	113.7	-4,787.2	3,936.0
Current loans	1,580.0	0.0	0.0	1,580.0
Current portion of non-current loans	4,493.5	232.5	-357.4	4,368.6
Taxes and transfer liabilities	8,810.9	115.0	88.2	9,014.0
Liabilities from exchange transactions	374.3	47.4	233.8	655.5
Other liabilities	2,365.8	173.8	803.9	3,343.6
Total	**47,049.8**	**3,799.3**	**-4,876.6**	**45,972.4**

The €85,298.9 million decrease in equity mainly result from the following issues:

- Equity falls by €67,260.1 million due to the transition effect from the first time application of the IPSAS as at 1 January 2019.
- Accounting for interest and currency derivates in full decreases the reserve for cash flow hedges and thus equity by €2,041.3 million.
- Actuarial gains/losses reduce equity by €16,309.6 million.
- Valuation of plan assets at fair value improves equity by €404.9 million.

Reconciliation of profit or loss for the financial year 1 January to 31 December 2019

					2019
		HGB	Transition effect		IPSAS
in € Mio.		Consolidated financial statements for federal state of Hesse	Inclusion of additional entities[35]	Further adjustments	
1.	**Revenue from non-exchange transactions**	**29,677.8**	**115.0**	**1,179.5**	**30,972.4**
	1a Taxes and parafiscal income	25,275.5	0.0	-12.7	25,262.8
	1b Income from finance equalisation	317.1	28.4	0.0	345.5
	1c Income from allocations and grants	3,873.9	86.6	1,192.1	5,152.7
	1d Income from financial penalties, fines, warning fines and penalty payments	211.3	0.0	0.0	211.3
2.	**Revenue from exchange transactions**	**3,455.2**	**690.1**	**-1,450.1**	**2,695.1**
	2a Income from fees and contributions	1,228.1	0.0	-0.3	1,227.9
	2b Revenue	1,554.3	684.8	-1,107.8	1,131.3
	2c Finance income	672.7	5.3	-342.0	336.0
3.	**Reversal of provisions**	**470.7**	**0.1**	**-28.0**	**442.8**
4.	**Other income**	**890.7**	**411.9**	**-68.0**	**1,234.6**
5.	**Total income**	**34,494.4**	**1,217.0**	**-366.6**	**35,344.9**
6.	**Personnel expenses**	**-10,589.6**	**-406.3**	**-3,110.1**	**-14,105.9**
7.	**Expenses for finance equalisation**	**-7,264.6**	**0.0**	**1.3**	**-7,263.3**
8.	**Expenses for allocations and subsidies**	**-7,429.1**	**0.0**	**-41.2**	**-7,470.4**
9.	**Administrative expenses**	**-3,351.1**	**-473.3**	**155.8**	**-3,668.6**
10.	**Depreciation and amortisation**	**-707.9**	**-127.0**	**-185.9**	**-1,020.7**
	10a Depreciation and amortisation	-640.2	-117.9	-197.8	-955.9
	10b Impairment of property, plant and equipment	-51.5	0.0	0.0	-51.5
	10c Other depreciation, amortisation and impairment losses	-16.2	-9.1	12.0	-13.4
11.	**Finance costs**	**-4,002.3**	**-35.0**	**907.0**	**-3,130.3**
12.	**Other expenses**	**-1,149.0**	**-137.2**	**765.0**	**-521.3**
13.	**Total expenses**	**-34,493.6**	**-1,178.8**	**-1,508.0**	**-37,180.5**
14.	**Share of profit of equity-accounted investees**	**0.00**	**0.0**	**164.9**	**164.9**
15.	**Profit/loss for the period**	**0.8**	**38.2**	**-1,709.7**	**-1,670.7**
	of which attributable to non-controlling interests	0.0	-1.2	15.6	14.4
	of which attributable to the federal state of Hesse	0.8	39.5	-1,725.3	-1,685.1

The result for the period according to national German GAAP for 2019 includes special effects from the conversion of the valuation of pension and benefit obligations to the projected unit credit method (PUC). After adjustment for these special effects, the German GAAP result for 2019 is € -2,440.7 million and thus the IPSAS statement of profit or loss shows a result that is by € 770 million higher. This difference essentially results from

— an increase in personnel expenses related to pension and benefit obligations of € 668.6 million and

— a reduction of € 1,691.6 million in finance costs related to pension and benefit obligations.

F. Conclusion

The trial preparation by the state of Hesse of annual financial statements following the principles of IPSAS allowed a very differentiated and profound view on the question of the extent whether fit-for-purpose public-sector accounting is also possible on the basis of IPSAS.

Overall, it can be stated that ***IPSAS allow fit-for-purpose accounting***.

Provided that the existing options under both HGB and IPSAS are exercised correspondingly, ***actual differences at a reasonable level*** were identified.

The accounting principles considered as particularly worthy of protection from a German perspective, such as the ***prudence principle, can also be maintained when applying IPSAS***. In addition, the cost principle as a manifestation of the lower of cost and market commercial principle is assessed as largely applicable. Fair values are recognised only in substantiated cases and with reference to active markets – this too is evident from the following overview of the assessment parameters underlying the consolidated IPSAS financial statements of the state of Hesse.

Items in the statement of financial performance	Measurement bases
Assets	
Intangible assets	Amortised cost*
Property, plant and equipment	Amortised cost*
Financial assets	Fair value (listed equity investments/ securities) or Amortised historical cost (all further investments)
Receivables from exchange transactions	Amortised cost
Receivables from non-exchange transations	Amortised cost
Inventory	Lower of acquisition or production cost and net realisable value
Cash receipts and cash payments	Nominal amount
Other assets	Amortised cost
Derivative financial instruments	Fair value
Liabilities	
Pension and benefit obligations	Projected Unit Credit Methode taking into account the fair value
Other provisions	Amount to be paid
Loans	Amortised cost
Tax and transfer liabilities	Amortised cost
Liabilities from exchange transations	Amortised cost
Other liabilities	Amortised cost

** Accounting option*

From a practical perspective, it can be stated that increased transitional work is connected particularly to the topic areas of financial instruments, property plant and equipment, leasing and the disclosures in the notes. The greatest value impact came from the changed measurement of pension and benefit provisions.

In respect to the ongoing specialist discussion, account is to be taken of the fact that Directive 2013/34/EU has also found its way into national accounting law. Consequently via the standards on government accrual accounting (GPSAS), it is also being integrated into public-sector accounting. Thus an ***"internationalised" HGB in Germany is the basis for*** both private sector and ***public sector accounting***. Near-term harmonisation of accounting for the public sector in the EU would also be conceivable – possibly as an initial step – on the basis of the EU Accounting Directive (2013/34/EU).

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www.bilanz.hessen.de

https://finanzen.hessen.de/haushalt/geschäftsbericht/themenseite-epsas.

NOTE

For the sake of comprehension and clarity the text may not use both the male and female forms; the personal nouns and pronouns used in this text therefore also apply in their female or male form.

Rounding differences within the IPSAS Financial Statements are possible due to presentation of amounts in € Mio.