

PUBLIC ESTABLISHMENTS ACCOUNTING STANDARDS MANUAL

Entities within the provisions of article 1, paragraphs 4 to 6, of the Order of 7 November 2012 on budgetary management and public accounting requirements, with the exception of public establishments of an administrative nature that apply the single chart of accounts for social security organisations

FEBRUARY 2020





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Public Establishments and Central Government Accounting Standards have the same numbers. There is, however, no equivalent to Standard 3 “Sovereign Revenue” and Standard 16 “Segment Reporting” in the Public Establishments Accounting Standards Manual; the latter does not therefore include a Standard 3 or a Standard 16.

A future Local Entities Accounting Standards Manual will include a Standard 22 which has no equivalent for Public Establishments. Consequently, this Manual does not present a Standard 22.



UPDATES

Opinion of the Public Sector Accounting Standards Council	Date of Order amending the Public Establishments Accounting Standards Manual	Application date of the Opinion
Opinion n° 2020-02 of 17 January 2020 relating to the new Standard 24, "Acquisitions of Property for Subsequent Resale to a Third Party".	13 February 2020	These requirements are effective at the earliest from 1 January 2021 (accounts for the year ended 31 December 2021) and at the latest from 1 January 2024 (accounts for the year ended 31 December 2024).
Opinion n° 2018-10 of 11 October 2018 relating to amendments of Standard 1 "Financial Statements" and Standard 13 "Commitments to be disclosed in the notes" of the public establishments accounting standards Manual.	23 November 2018	<p>These requirements are effective from 1 January 2018 (accounts for the year ended 31 December 2018).</p> <p>Entities transitioning in 2018 that publish a cash flow statement for the first time in their 2018 financial statements, or that change their presentation method to use the indirect method starting in 2018, may present only amounts relating to 2018 (no comparative data required).</p>
Opinion n° 2018-09 of 3 July 2018 relating to the new Standard 23 relating to Development Activities	1 st August 2018	These requirements are effective from 1 January 2020 (accounts for the year ended 31 December 2020), with earlier application permitted.
Opinion n° 2018-08 of 3 July 2018 relating to the introduction of the Public Establishments Accounting Standards Manual.	1 st August 2018	Immediate application.

Opinion of the Public Sector Accounting Standards Council	Date of Order amending the Public Establishments Accounting Standards Manual	Application date of the Opinion
Opinion n° 2018-02 of 19 January 2018 relating to the application date of the public establishments accounting standards Manual.	22 February 2018	Immediate application.
Opinion n° 2017-01 of 3 July 2017 relating to specific levy on working capital in public establishments.	2 October 2017	These requirements are effective from 1 January 2017 (accounts for the year ended 31 December 2017).

INTRODUCTION

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INTRODUCTION

This Accounting Standards Manual comprises Accounting Standards made up of:

- an introduction, that explains the requirements and sets out any specific features of the field concerned, explains the choices made and the position of the Standard as compared to other existing Accounting Standards;
- the requirements themselves, usually divided into four parts:
 1. Scope and definitions
 2. Recognition criteria
 3. Measurement on initial recognition and at the reporting date
 4. Disclosures to be made in the notes

As regards the status of the documents contained in this Manual, only the Standards themselves shall be regarded as setting requirements.

According to the second paragraph of Article 47-2 of the Constitution, “The accounts of government units shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said government units”.

In addition, Order n°2012-1246 of 7 November 2012 relating to public budgetary and accounting management refers specifically in Articles 56 and 57 to accrual accounting. According to the last paragraph of Article 56, which follows the guidelines for Central Government already defined by the Constitutional Bylaw on Budget Acts of 1 August 2001, “The accrual accounting rules applicable to corporate entities referred to in Article 1 only differ from those applicable to business entities where this is made necessary by the specific characteristics of their activity. These rules are defined in standards developed in accordance with Article 136 of the Law of 28 December 2001, as referred to above”.

The set of Standards included in this Manual provides guidance to entities within its scope in complying with this obligation.

1. SCOPE

1.1. Entities

This Manual applies to entities within the provisions of Article 1, Paragraphs 4 to 6, of the Order of 7 November 2012 on budgetary management and public accounting requirements, with the

exception of public establishments of an administrative nature that apply the Single Chart of Accounts for Social Security Organisations.

For convenience, bodies within the scope of this Manual are described as “entities”.

1.2. Accounts

The Manual sets out the accrual accounting requirements applicable in the individual accounts of entities within its scope. Budgetary accounting is outside the scope of this Manual.

Entities with a legal obligation¹ to prepare consolidated accounts apply the provisions of Regulation 08_017_M9 of 3 April 2008 entitled “The consolidated accounts of national public establishments”.

2. GENERAL PRINCIPLES, QUALITATIVE CHARACTERISTICS OF THE FINANCIAL STATEMENTS AND CONSTRAINTS TO BE CONSIDERED

The financial statements of entities are prepared on a going concern basis. The financial statements are prepared in accordance with the following general principles and qualitative characteristics, without any particular hierarchy and subject to considering the constraints set out in 2.3. below.

2.1. General principles

Faithful representation

Faithful representation is achieved where the preparers of the accounts apply faithfully the accounting rules and procedures to the depiction of transactions and events according to their best knowledge of the true nature and substance of the latter.

Compliance

Compliance is conformity with the accounting rules and Standards in force.

True and fair view

Information gives a true and fair view of operations, transactions and other events when it provides the user of the accounts with the best possible representation of the latter.

2.2. Qualitative characteristics of the financial statements

Neutrality

For accounting information to be neutral, its presentation must be free from bias.

¹ Law 85-11 of 3 January 1985 on the consolidated accounts of certain commercial companies and public enterprises amended by Article 136 - I of the Financial Security Act 2003-706 of 1 August 2003.

Relevance

Information is relevant when it is useful for the interpretation of the accounts, or for the users' decision-making, by helping them evaluate past, present or future events or correct or confirm their past evaluations. The timeliness of information, that is making it available at the appropriate time, enhances its relevance.

Reliability

Reliable information is free from material error, bias and excessive uncertainty (for example, uncertainty of measurement).

Completeness

The information in the financial statements must be complete, to the extent that an omission can cause the information to be false or misleading.

Understandability

The information in the financial statements must be understandable by users i.e. well-defined, classified and presented in a clear and concise manner. For this purpose, users are assumed to have a reasonable knowledge of the public sector and accounting. However, information about complex matters should not be excluded from the financial statements where such information is relevant to users' needs.

Prudence

Prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence must not adversely affect the neutrality of the information.

Comparability

Accounting information must be comparable from one period to another to identify trends relating to the situation of the entity and enable comparisons to be made with other entities. Comparability implies the consistent use of accounting policies, measurement bases and presentation by the entity from one period to another.

Substance over form

Transactions and other events must be accounted for and presented in accordance with their substance and economic and legal reality and not merely their form.

Accrual principle

Under the accrual principle revenue and expense are recognised in the accounting period to which they actually relate, and in that period alone.

Offsetting

Assets and liabilities are recognised separately. Assets and liabilities or revenue and expense may not be offset against one another, subject to any specific exception stipulated in a Standard.

Verifiability

Verifiability is the quality that enables users to ensure the accuracy of financial information. Information is verifiable if it is supported by valid internal or external documentary evidence.

2.3. Constraints

The qualitative characteristics of information are applied taking into account three constraints or limits.

Cost-benefit

Accounting information has a cost: the benefits derived from this information should justify the cost.

Materiality

Materiality must be considered for the presentation and classification of information in the balance sheet and surplus or deficit statement. Materiality must also be considered when determining the information presented in the notes. Information is material if its omission or misstatement could influence the decisions taken by the users of the accounts.

Confidentiality of certain operations or transactions

Published accounting information is not intended to make disclosures of a genuinely confidential nature or that could adversely affect the strategic interests of the entity.

3. ACTIVITIES SUBJECT TO CORPORATE INCOME TAX

This Manual deals essentially with accounting requirements for entities and tax matters are outside its scope.

Nevertheless, because certain entities are subject to corporate income tax, those accounting options which are beneficial for tax purposes and available to enterprises in the French General Chart of Accounts have been maintained in order to avoid penalising those entities. This applies mainly to the irrevocable option of treating the acquisition costs of intangible, tangible or financial assets as an expense.

An option has also been introduced in Standard 14 “Changes in Accounting Policy, Changes in Accounting Estimates and the Correction of Errors” in favour of entities with taxable activities that wish to deduct the effect of changes in accounting policy for tax purposes. Consequently, in order to benefit from a deduction from taxable income, an enterprise (in this case the entity) may recognise the effect of the change through surplus or deficit, in accordance with Opinion 97-06 of the National Accounting Standards Council (CNC).

If there are circumstances where the requirements of this Manual are unsatisfactory from the point of view of corporate income tax legislation, the entities concerned apply the requirements of the French General Chart of Accounts.

4. POSITION OF EACH STANDARD COMPARED TO OTHER SETS OF ACCOUNTING STANDARDS

Until the publication of the Order of 7 November 2012 relating to public budgetary and accounting management, public establishments applied accounting standards based on the French General Chart of Accounts (PCG). Henceforth, the Order refers accounting standard setting to the jurisdiction of the Public Sector Accounting Standards Council instead of the PCG. In order to facilitate this transition, each of the Standards in the Manual identifies the main differences compared to the PCG.

Because the entities within the scope of the Manual are close to Central Government, it was considered appropriate to identify the areas of convergence and divergence with Central Government Accounting Standards. The specific features of these entities as compared to Central Government are also highlighted. Each Standard includes a commentary on this point. Lastly, a comparison with the international standards developed by the IPSAS Board² and the IASB³ is included, where appropriate, in order to identify the main differences or where certain items are not dealt with in international standards.

The introduction to each Standard includes a comparison with the requirements of other sets of accounting standards. The comparison is based on accounting standards effective in 2014.

5. EFFECTIVE DATE

Consistent with the provisions of the Order of 1 July 2015 adopting the Accounting Standards Manual applicable to entities covered by paragraphs 4 to 6 of Article 1 of Order n° 2012-1246 of 7 November 2012 on budgetary management and public accounting, the requirements of this Manual are applicable to the financial statements of entities within its scope as from the 1 January 2016 (periods ending the 31 December 2016), with prior application allowed⁴.

Transitional relief is available to the following entities which encounter difficulties in applying certain of the requirements of this Manual subject to these entities making an appropriate disclosure in the notes explaining why they are unable to apply the relevant requirements.

1° In the case of the Forestry Commission (Office National des Forêts), major State-controlled seaports, the independent port authorities of Paris and Strasbourg and entities subject to the budgetary accounting rules set out in items 1° and 2° of Article 175, Articles 178 to 185 and 204 to 208 Heading III of the Order of 7 November 2012, the requirements of this Manual are applicable in full to the financial statements with effect from 1 January 2018 (periods ending 31 December 2018).

² IPSAS Board: International Public Sector Accounting Standards Board.

³ IASB: International Accounting Standards Board.

⁴ The effective date for Standard 19 “Long Term Contracts” is the 1 January 2016, with prior application allowed. As from this date, the percentage of completion method is the only method applicable to the recognition of new long term contracts.

Because of the practical difficulties involved in reconstituting data for restating work in progress on a percentage of completion basis, the new accounting policy is applied prospectively to contracts entered into as from 1 January 2016.

A description and the amount of the contracts that continue to be recognised using a method other than the percentage of completion method required by the standard are disclosed in the notes.

2° In all other cases, the requirements of the Manual are fully applicable at the latest to the financial statements with effect on 1 January 2020 (periods ending the 31 December 2020).

In addition, CNOCP Opinion n° 2015-05 of 8 April 2015 requires, where practicable, quantified information to be provided in the notes explaining why certain provisions are not applied.

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STANDARD 1 FINANCIAL STATEMENTS

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STANDARD 1 FINANCIAL STATEMENTS

Introduction

I. FINANCIAL STATEMENTS

The financial statements portray an entity's financial position and performance. They contain information enabling users to assess and interpret changes in the latter.

Entities have a mission of public service using funds provided by Central Government. Unlike the latter, entities are not generally responsible for collecting and redistributing taxes. Consequently, the model financial statements presented in the Standard are closer to those of private entities than those of Central Government.

The Standard presents model financial statements for entities which may be adapted according to the specific features of their activity. Consequently, where certain line items have a nil or an immaterial balance they may, for the sake of clarity, be omitted from the face of the balance sheet or the surplus or deficit statement. In addition, the captions may be modified or supplemented. Lastly, entities may opt for a more detailed presentation¹.

I.1. Balance sheet

I.1.1. Presentation

The list format used for Central Government has not been adopted for the presentation of the balance sheet. An entity's balance sheet is presented in table format listing the identified recognised assets and liabilities.

The following totals are presented in the balance sheet:

- > assets represent those elements with a positive economic value for the entity. The main components are fixed assets, current assets and cash.
- > liabilities consist of obligations towards other parties at the reporting date, which at the date the accounts are finalised, will probably or certainly give rise to an outflow of resources necessary to settle the obligation towards the other party. Liabilities include provisions for risks and liabilities, financial and non-financial debts, and cash liabilities.
- > equity is made up of funding received, reserves and the entity's surplus or deficit for the period.
- > other elements, like deferrals and conversion differences are neither assets nor liabilities nor equity.

¹ For example, establishments subject to specific tax legislation may adapt the presentation of their balance sheet and surplus or deficit statement.

I.1.2. Comments on certain items

Equity

Equity is presented above liabilities. This term was preferred to “net assets/equity” which is used to describe the balance of total assets and total liabilities in the Central Government’s accounts. This is because the latter approach, which determines equity by deducting total assets from total liabilities, is not appropriate for entities which receive an initial funding allocation to start their activity. As these entities do not have a starting capital as such, the term “owners’ equity” was not adopted either. “Equity” is the term used to describe the stable funding resources of an entity without using specifically private sector terminology. The latter contributes to the permanent funding of the entity. Because of the diversity and materiality of different sources of funding, a distinction is made in the balance sheet between Central Government funding and that received from other sources.

When a specific levy on working capital accumulated over the years in a public establishment is required by law, the cash outflow relating to that levy or the corresponding liability is recognised directly as a reduction of equity, in the year during which the law is applicable.

Receivables and debts

The receivables and debts relating to intervention schemes are identified separately².

Cash

Cash is presented separately as an asset or a liability as for Central Government.

I.2. Surplus or deficit statement

I.2.1. Presentation

The surplus or deficit statement is presented in table format. It may however be presented in list format as for Central Government and business entities.

There are three expense categories: operating expenses, intervention expenses and financial expenses.

The two revenue categories are operating revenue and financial revenue.

Operating revenue is broken down into revenue from non-exchange transactions (grants), revenue from exchange transactions, arising from the entity’s operating activity and, lastly, other revenue.

Grants usually represent the major source of funding for entities. A distinction is made by source of funding so that grants to cover public service costs, that have to be controlled against budget, are presented separately from other intervention revenue, which may be in the form of grants or allocated tax revenue.

² Intervention schemes are presented in Standard 12 “Non-Financial Liabilities” and Standard 9 “Receivables” of this Manual.

I.2.2. Comments on certain items

Depreciation, provisions and impairment are presented in operating, intervention or financial expenses, as appropriate. Similarly, reversals of depreciation, provisions and impairment are presented in operating or financial revenue as appropriate.

I.3. Notes to the financial statements

I.3.1. Presentation

The notes form an integral part of the financial statements. The notes provide all of the information useful for an understanding of the balance sheet and the surplus or deficit statement. They provide information on the changes in the entity's financial position and performance.

The notes also provide explanations about the entity's operations and its environment.

Each of the Standards in the Manual includes requirements for qualitative and quantitative disclosures to be made in the notes.

I.3.2. Cash flow statement

A cash flow statement is included in the notes. This statement provides information on the changes in cash position between the beginning and the end of the period. The changes in cash position are classified according to the type of transactions: cash flows related to operating activities, investment activities and financing activities. It also identifies cash allocated to funding transactions that continue after the reporting period. Cash flows related to operating activities can be presented using one of the following methods:

- > The direct method, in which information is provided about the main categories of gross cash inflows and outflows;
- > The indirect method, whereby net accounting income is adjusted to take into account the impact of non-cash transactions, any deferrals or adjustments of past or future receipts or disbursements related to operating activities as well as revenue or expense items in connection with cash flows relating to investments or financing.

II. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

II.1. Position of the Standard as compared to Central Government Accounting Standards

The presentation requirements for the balance sheet and the surplus or deficit statement in Standard 1 differ from those of Central Government which include a statement of net assets/equity and a surplus or deficit statement in three parts.

More specifically, the item net assets/equity of Central Government is equal to the difference between total assets and liabilities, whereas the equivalent item for entities is equity. Whereas the surplus or deficit statement for Central Government is made up of three individual statements, the net expenses statement, the net sovereign revenue statement and a statement

summarising the two previous statements, the net operating surplus or deficit statement for the period, the surplus or deficit statement for entities is a single summary statement.

Although the Central Government Accounting Standards Manual does not call for a cash flow statement, organisations must prepare a cash flow statement using either the direct or the indirect method.

II.2. Position of the Standard as compared to the French General Chart of Accounts

The financial statements of entities are similar to those of business entities. However, the Standard differs in the following respects from the requirements of the French General Chart of Accounts:

- > The presentation requirements for equity in the French General Chart of Accounts were considered unsuitable for entities. The approach adopted in the Standard sets out to highlight the way entities' assets are funded. Moreover, as stated above, the term equity was considered more suitable than capital.
- > The balance sheet presentation of cash as a source of funding differs from that of the French General Chart of Accounts.
- > The items intervention expenses, exchange revenue and non-exchange revenue which do not exist in the French General Chart of Accounts have been introduced in the surplus or deficit statement.
- > The requirements of the French General Chart of Accounts with respect to the determination of an exceptional surplus or deficit have not been adopted in the Manual; no such item therefore appears on the face of the surplus or deficit statement.
- > There are specific disclosure requirements relating to the reconciliation of accrual and budgetary accounting surplus or deficit that do not exist in the French General Chart of Accounts.

II.3. Position of the Standard as compared to international accounting standards

International standards developed by the IPSAS Board³ (IPSAS 1 "Presentation of Financial Statements") and the IASB⁴ (IAS 1 "Presentation of Financial Statements"), which define the presentation of the financial statements include general considerations relating to the entities concerned, the purposes and qualitative characteristics which are not in Standard 1 for entities.

According to IPSAS 1, the financial statements include a statement of changes in net assets/equity.

IPSAS 1 and IAS 1 both make a distinction between current and non-current assets and liabilities. The systematic distinction current/non-current has not been adopted in this Standard, although the term current in a broad sense has been used where deemed appropriate.

³ IPSAS Board: International Public Sector Accounting Standard Board.

⁴ IASB: International Accounting Standard Board.

A second difference as compared to IAS 1 relates to “Other comprehensive income”, for which there is no equivalent in French public sector accounting principles.

IAS 1 requires far more disclosures in the notes than Standard 1. Under the approach adopted for the development of this Manual, disclosure requirements are included in the body of each individual Standard.

Lastly, with regard to the cash flow statement, the provisions of this standard are consistent with IPSAS 2 and IAS 7 concerning the cash flow statement.



STANDARD 1 FINANCIAL STATEMENTS

Requirements

The financial statements include a balance sheet, a surplus or deficit statement and notes. They provide comparative figures for two periods.

The balance sheet is presented in table format. The surplus or deficit statement may be presented either in table or list format.

1. BALANCE SHEET

1.1 Presentation

BALANCE SHEET							
ASSETS	Year N			Year N-1	LIABILITIES	Year N	Year N-1
	Gross	Depreciation impairment	Net	Net			
FIXED ASSETS					EQUITY		
Intangible assets					Funding		
Tangible assets					Central Government funding		
Land					Other funding		
Buildings					Reserves		
...					Unappropriated surplus or deficit		
Financial assets					Surplus or deficit for the period		
					TOTAL EQUITY		
					PROVISIONS FOR RISKS AND LIABILITIES		
					Provisions for risks		
					Provisions for liabilities		
TOTAL FIXED ASSETS					TOTAL PROVISIONS FOR RISKS AND LIABILITIES		
					FINANCIAL DEBTS		
					Bonds payable		
					Loans granted by financial institutions		
					Financial debt and other borrowings		
					TOTAL FINANCIAL DEBT		
CURRENT ASSETS					NON FINANCIAL DEBTS		
Inventories					Accounts payable and related accounts		
Receivables					Tax and social liabilities		
Receivables from public entities (Central Government, other public entities) international organisations and European Commission					Advances and payments on account received		
Accounts receivable and related accounts					Liabilities for transactions on behalf of third parties (intervention schemes)		
Taxpayers (revenue from allocated taxation)					Other non-financial debt		
Advances and payments on account made by the entity					Prepaid revenue		
Receivables for transactions on behalf of third parties (intervention schemes)					TOTAL NON FINANCIAL DEBT		
Other receivables							
Prepaid expenses							
TOTAL CURRENT ASSETS (EXCLUDING CASH)							
CASH					CASH		
Short-term investments					Other cash liabilities		
Cash on hand							
Other							
TOTAL CASH					TOTAL CASH		
Deferred expenses					Deferred revenue		
Exchange differences (loss)					Exchange differences (gain)		
OVERALL TOTAL					OVERALL TOTAL		

1.2 Comments on certain line items

Receivables and debts

Assets include the item “Receivables” which identifies separately receivables due by public entities, comprising transactions with Central Government or other public entities, or with international organisations or the European Commission. Accounts receivable and related accounts comprise receivables for the sale of goods or services.

Intervention receivables and payables are identified separately as assets and liabilities.

Cash

Cash on hand includes bills in the course of collection or payment and discounted bills. Cash assets and liabilities are presented separately without offsetting.

2. SURPLUS OR DEFICIT STATEMENT

2.1 Presentation

2.1.1. Presentation in table format

SURPLUS OR DEFICIT STATEMENT					
EXPENSES	Year N	Year N-1	REVENUE	Year N	Year N-1
OPERATING EXPENSES Purchases Consumption of goods and supplies, work carried out, services consumed directly by the entity in the course of its operating activity and changes in inventory Staff costs <i>Salaries, wages and sundry compensation</i> <i>Profit-sharing</i> <i>Profit-sharing</i> <i>Other staff costs</i> Other operating expense (including losses on impaired receivables) Depreciation, impairment, provisions and net carrying value of disposals			OPERATING REVENUE Non-exchange revenue (or grants and similar revenue) Subsidies for public service expenses Operating grants from State and other public entities Intervention funding grants from State and other public entities Donations and bequests Allocated tax revenue		
TOTAL OPERATING EXPENSES					
INTERVENTION EXPENSES Intervention schemes for own account <i>Transfers to households</i> <i>Transfers to businesses</i> <i>Transfers to local and regional authorities</i> <i>Transfers to other entities</i> Expenses arising from calling up the entity's guarantee Provisions and impairment			Exchange revenue (or direct operating revenue) Sales of goods and services Proceeds of asset disposals Other administrative revenue Increases in inventories of finished goods and work in progress and capitalised production Revenue from contracts for the provision of public service Other revenue Reversal of depreciation, impairment and provisions (operating revenue) Asset funding revenue		
TOTAL INTERVENTION EXPENSES					
TOTAL OPERATING AND INTERVENTION EXPENSES			TOTAL OPERATING REVENUE		
FINANCIAL EXPENSES Interest expense Loss on disposal of short-term investments Exchange losses Other financial expenses Depreciation, impairment, financial provisions			FINANCIAL REVENUE Revenue from loans and investments Gain on disposal of financial assets Interest from current receivables Revenue from short-term investments and cash Gain on disposal of short-term investments Exchange gains Other financial revenue Reversal of depreciation, impairment and financial provisions		
TOTAL FINANCIAL EXPENSES			TOTAL FINANCIAL REVENUE		
Corporate income tax					
SURPLUS			DEFICIT		
TOTAL EXPENSES			TOTAL REVENUE		

2.1.2. Presentation in list format

SURPLUS OR DEFICIT STATEMENT		
	Year N	Year N-1
OPERATING REVENUE		
Non-exchange revenue (or grants and similar revenue)		
Subsidies for public service expenses		
Operating grants from State and other public entities		
Intervention funding grants from State and other public entities		
Donations and bequests		
Allocated tax revenue		
Exchange revenue (or direct operating revenue)		
Sales of goods and services		
Proceeds of asset disposals		
Other administrative revenue		
Increases in inventories of finished goods and work in progress and capitalised production		
Revenue from contracts for the provision of public service		
Other revenue		
Reversal of depreciation, impairment and provisions (operating revenue)		
Asset funding revenue		
TOTAL OPERATING REVENUE (I)		
OPERATING EXPENSES		
Purchases		
Consumption of goods and supplies, work carried out, services consumed directly by the entity in the course of its operating activity and changes in inventory		
Staff costs		
<i>Salaries, wages and sundry compensation</i>		
<i>Social costs</i>		
<i>Profit-sharing</i>		
<i>Other staff costs</i>		
Other operating expense (including losses on impaired receivables)		
Depreciation, impairment, provisions and net carrying value of disposals		
TOTAL OPERATING EXPENSES (II)		
INTERVENTION EXPENSES		
Intervention schemes for own account		
<i>Transfers to households</i>		
<i>Transfers to businesses</i>		
<i>Transfers to local and regional authorities</i>		
<i>Transfers to other entities</i>		
Expenses arising from calling up the entity's guarantee		
Provisions and impairment		
TOTAL INTERVENTION EXPENSES (III)		
NET OPERATING REVENUE (OR EXPENSE) (IV = I – II-III)		

	Year N	Year N-1
FINANCIAL REVENUE		
Revenue from loans and investments		
Gain on disposal of financial assets		
Interest from current receivables		
Revenue from short-term investments and cash		
Gain on disposal of short-term investments		
Exchange gains		
Other financial revenue		
Reversal of depreciation, impairment and financial provisions		
TOTAL FINANCIAL REVENUE (V)		
FINANCIAL EXPENSES		
Interest expense		
Loss on disposal of short-term investments		
Exchange losses		
Other financial expenses		
Depreciation, impairment, financial provisions		
TOTAL FINANCIAL EXPENSES (VI)		
NET FINANCIAL REVENUE (OR EXPENSE) VII (V – VI)		
CORPORATE INCOME TAX (VIII)		
SURPLUS OR DEFICIT IX = IV + VII-VIII		

2.2. Comments on certain line items

Operating expenses include the heading “staff costs”, representing the total of all the different forms of compensation paid to the entity’s staff, as well as the related social and fiscal costs, pension benefits, the cost of profit-sharing schemes and other staff expenses.

Staff compensation comprises wages and salaries (basic pay and overtime) family supplements, sundry bonuses and gratuities, holiday pay, time savings accounts, etc.; The related social and fiscal costs include social security, additional healthcare and similar benefit contributions, etc.

Financial expenses include interest expense on financial debt, derivatives, other cash items or funding transactions. Exchange losses arising on financial debts and instruments in foreign currency are identified in a separate line item.

The loss on disposal of short-term investments represents losses incurred on the disposal of short-term investments and cash equivalents. Financial revenue includes a similar breakdown.

3. NOTES

The notes form an integral part of the financial statements. They are not a substitute for the balance sheet or surplus or deficit statement which they supplement and explain.

3.1. Principles for drawing up the notes

The notes help to provide a true and fair view of the entity's financial position and performance. They help to explain or provide details of certain items in the balance sheet or surplus or deficit statement.

The notes also provide explanations about the entity's operations and its environment.

The notes contain all the material information that is likely to influence the decisions of the users of the financial statements. The level of materiality of an item of information may therefore determine whether it should be disclosed. The threshold is set according to the materiality, from both a quantitative and qualitative viewpoint, of the information for users of the financial statements. Information is therefore deemed to be material if failure to disclose it could change the users' judgment with regard to the entity's financial position.

3.2. Contents of the notes

The notes provide a systematic presentation of qualitative and quantitative information including:

- > Qualitative and quantitative information enabling the user of the financial statements to understand the entity's operations and environment.
- > Where entities encounter difficulties in applying certain of the requirements of this Manual, they make an appropriate disclosure in the notes explaining why they are unable to apply the relevant requirements. Wherever possible, entities provide quantitative information in support of their commentary.
- > Accounting, measurement and presentation policies adopted for the financial statements.
- > Changes in accounting policies, accounting estimates and corrections of errors.
- > Information providing details or explanations of the amounts on the face of the balance sheet or surplus or deficit statement.
- > Information which is not presented in the balance sheet or surplus or deficit statement which must nevertheless be disclosed in the notes such as commitments received and made which may affect the entity's future financial position and performance. The commitments that require disclosure in the notes are defined in different Standards and specifically in Standard 13 "Commitments to be Disclosed in the Notes".
- > A cash flow statement. The statement sets out changes in the entity's cash position between the beginning and the end of the accounting period. It identifies the different cash flows by type of transaction and may be supplemented by appropriate commentary.

In addition, each of the Standards in the Manual includes a section on disclosure requirements for the notes.

Model cash flow statement prepared using the direct method

CASH FLOW STATEMENT	YEAR N	YEAR N-1
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
RECEIPTS		
Non-exchange revenue : grants and similar revenue		
Exchange revenue: revenue from operating activity		
PAYMENTS		
Operating expenses		
<i>Staff costs</i>		
<i>Operating expenses (other than staff costs)</i>		
Intervention expense : schemes for own account		
TOTAL (I)		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
RECEIPTS		
Disposals of intangible assets		
Disposals of tangible assets		
Disposals of financial assets		
Other transactions		
PAYMENTS		
Acquisitions of intangible assets		
Acquisitions of tangible assets		
Acquisitions of financial assets		
Other transactions		
TOTAL (II)		
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
RECEIPTS		
Equity contributions		
Loan issues		
Other transactions		
PAYMENTS		
Repayment of loans		
Other transactions		
TOTAL (III)		
<u>CASH FLOWS FROM TRANSACTIONS MANAGED FOR THIRD PARTIES</u>		
RECEIPTS		
PAYMENTS		
TOTAL (IV)		
CHANGE IN CASH POSITION (V= I+II+III+IV)		
CASH POSITION AT BEGINNING OF PERIOD		
CASH POSITION AT END OF PERIOD		

Model cash flow statement prepared using the indirect method

CASH FLOW STATEMENT	YEAR N	YEAR N-1
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
NET REVENUE		
Elimination of non-cash or non-operating revenue and expenses:		
Depreciation and provisions, excluding provisions on current assets		
Gain on disposals		
Others ¹		
Change in working capital requirements related to operations ²		
TOTAL (I)		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
RECEIPTS		
Disposals of intangible assets		
Disposals of tangible assets		
Disposals of financial assets		
Other transactions		
PAYMENTS		
Acquisitions of intangible assets		
Acquisitions of tangible assets		
Acquisitions of financial assets		
Other transactions		
TOTAL (II)		
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
RECEIPTS		
Equity contributions		
Loan issues		
Other transactions		
PAYMENTS		
Repayment of loans		
Other transactions		
TOTAL (III)		
<u>CASH FLOWS FROM TRANSACTIONS MANAGED FOR THIRD PARTIES</u>		
RECEIPTS		
PAYMENTS		
TOTAL (IV)		
CHANGE IN CASH POSITION (V= I+II+III+IV)		
CASH POSITION AT BEGINNING OF PERIOD		
CASH POSITION AT END OF PERIOD		

¹ Dividends in particular (if any).

² To be broken down by main headings (inventories, operations-related receivables and payables, unsettled provisional account assignments).

STANDARD 2 EXPENSES

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STANDARD 2 EXPENSES

Introduction

This Standard defines expenses for entities and sets out the rules for the recognition and measurement of these expenses, as well as the disclosures to be made in the notes. It should be read in conjunction with Standard 12 “Non-financial Liabilities” and Standard 13 “Commitments to be Disclosed in the Notes”.

Expenses include intervention expense the specific features of which are set out below.

I. DEFINITION, SCOPE AND RECOGNITION CRITERIA FOR INTERVENTION EXPENSE

I.1. Intervention schemes

Intervention expenses are economic and social aid payments made by the entity. They may be defined as payments made, or to be made, as part of aid and support distribution schemes to clearly defined categories of beneficiaries, without any equivalent recognisable consideration received in exchange. The categories of beneficiaries are households, businesses, local and regional authorities and other entities.

I.2. Scope of intervention expense

Intervention schemes may be implemented by entities on behalf of third parties or for their own account. Only the schemes implemented for the entity’s own account are within the scope of this Standard¹.

The entity’s responsibility for conducting intervention schemes in favour of one or more final beneficiaries may be defined by law, regulation or its articles of association. Where the entity has the necessary capacity to distribute the relevant aid and support, with certain powers of decision over its attribution, it carries out the transaction for its own account.

In the case of schemes implemented for the entity’s own account, the entity recognises transactions in the surplus or deficit statement of the period in which the recognising event takes place. At the reporting date, intervention expense is recognised as a non-financial liability to the extent that the relevant cash outflow has not taken place and subject to fulfilling the conditions stipulated in Standard 12 “Non-financial Liabilities”. Disclosure of the entity’s intervention commitments for its own account may also be required in accordance with Standard 13 “Commitments to be Disclosed in the Notes”.

¹ See the relevant requirements of Standard 12 “Non-financial Liabilities” in respect of schemes conducted on behalf of third parties.

I.3. Recognition criteria

The recognising event for an expense determines the period in which it is recognised. The recognising event for intervention expense is the same as for other categories of expense, namely the “performance of the service”. Therefore, all expenses arising from services performed in the period must be recognised in that same period.

The “performance of the service” in the case of intervention expense is the fulfilment of the necessary conditions relating to the entitlement and continued entitlement of the beneficiary during the accounting period.

II. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

II.1. Position of the Standard as compared to Central Government Accounting Standards

The Standard is consistent with the principles of Central Government Accounting Standards subject to the specific features of entities.

Recognition criteria, in particular the recognising event for expenses, are consistent with Central Government Accounting Standards.

Some categories of expenses addressed by the Central Government Accounting Standards Manual are specific to the Central Government. Therefore, the category “indirect operating expenses”, a component of “intervention expenses”, and “expenses arising from calling up the Central Government’s guarantee” that feature in Central Government Accounting Standards have been omitted from the Standard.

The requirements for staff costs are based on Central Government Accounting Standards but have been adapted to reflect the specific features of entities.

Unlike Central Government, entities may be subject to corporate income tax on their “for profit” activities. Accordingly a specific category of expense was introduced for this purpose.

The item “Loss on disposal of short-term investments” was introduced in the Standard.

Consistent with Central Government Accounting Standards, Standard 2 “Expenses” does not include the category “exceptional expenses”.

Lastly, as in Central Government Accounting Standards, deferral accounts, used to allocate all revenue and expenses to the period to which they relate, give rise to disclosures in the notes.

II.2. Position of the Standard as compared to the French General Chart of Accounts

The Standard is consistent with the principles of the French General Chart of Accounts. However, unlike the latter, the Standard does not identify exceptional expenses as a separate category of expense. Indeed, the French General Chart of Accounts provides for “exceptional items” without defining them.

II.3. Position of the Standard as compared to international accounting standards

International accounting standards, including IPSAS and IFRS, do not include a standard on expenses².

IPSAS 1 “Presentation of Financial Statements” does not require the presentation of an extraordinary surplus or deficit. However, unlike IAS 1, IPSAS 1 does not explicitly preclude the presentation of extraordinary items of revenue and expense on the face of the statement of financial performance or in the notes. The entity is therefore free to disclose such information if it wishes, or if it considers that it would be helpful to the users of the financial statements.

² The IFRS Framework (which does not have the status of a financial reporting standard) defines expenses as “elements of the financial statements”.



STANDARD 2 EXPENSES

Requirements

1. DEFINITION

1.1. Definition

An entity's expenses represent a decrease in its assets or an increase in its liabilities which is not directly offset by the entry of a new asset or decrease in liabilities.

An entity's expenses correspond either to the consumption of resources in the production of goods or services, or to an obligation to make a payment to another party necessary to settle the obligation towards that other party. Expenses include allocations to depreciation, provisions or impairment.

1.2. Expense categories

1.2.1. Operating expenses

Operating expenses arise from the entity's operating activity. They include:

- > consumption of goods and supplies, work carried out, services consumed directly by the entity in the course of its operating activity and changes in inventory;
- > staff costs representing the total of all the different forms of compensation paid to the entity's staff, as well as the related social and fiscal costs. They include:
 - Staff compensation, including basic pay, overtime, bonuses and gratuities, holiday pay, family supplements, the cost of time savings schemes and sundry compensation;
 - Social security and healthcare scheme expenses;
 - Other staff costs;
- > the costs of fulfilling legal obligations other than those for costs related to staff compensation and corporate income tax for the period;
- > depreciation and impairment allocations and the net carrying value of asset disposals;
- > other operating expense including bad debts and provisions.

1.2.2. Intervention expenses

Intervention expenses are economic and social aid payments made by the entity for its own account. These payments made, or to be made, form part of aid and support distribution schemes to clearly defined categories of beneficiaries, without any equivalent recognisable

consideration received in exchange, where the entity possesses certain powers of decision over the attribution of these aids.

The beneficiaries of intervention schemes are:

- > households: individuals or groups of individuals considered as consumers;
- > businesses: production units of goods and services, irrespective of their legal structure, provided the sales of goods and services cover more than 50% of their production costs. This includes agricultural and non-agricultural individual enterprises, financial and non-financial corporations in the public and private sectors, national public establishments in industry and trade and all other entities that meet the sales revenue criterion mentioned above;
- > local and regional authorities: local and regional authorities per se, meaning “communes”, “départements”, regions and their affiliated or associated public establishments, along with public establishments with local responsibilities;
- > other entities: entities incorporated under public law, private law or international law that do not belong to the other categories defined above.

Intervention schemes may be implemented for the entity’s own account or on behalf of third parties.

Intervention for the entity’s own account corresponds to schemes where the entity has certain powers of decision over the redistribution of funds it has received from Central Government, the European Union or other entities. Subject to fulfilling the “performance of service” condition, transactions are recognised in the entity’s surplus or deficit statement and give rise, where appropriate, to a liability¹ at the reporting date. Disclosure of the entity’s intervention commitments for its own account may also be required in the notes.

Intervention on behalf of third parties corresponds to schemes where the entity has no powers of decision over the redistribution of funds it has received from Central Government, the European Union or other entities to the end beneficiary. The entity acts as an agent that implements the intervention scheme on behalf of a third party. Intervention transactions carried out on behalf of third parties are not an expense of the entity. They are recognised in the entity’s balance sheet (see schemes implemented on behalf of third parties in Standard12 Non-Financial Liabilities).

1.2.3. Financial expenses

Financial expenses arise from the entity’s financial transactions. They include:

- > interest expenses on financial debts, cash, financial instruments and various debts related to financing and cash transactions;
- > exchange losses on financial debts and financial instruments denominated in foreign currency;
- > losses on disposal of short-term investments;
- > other financial expenses related to financing and cash transactions and to financial assets.

¹ Accrued expense or provision for risks and liabilities.

They do not include bank service charges, penalties for late payments or interest and exchange losses on transactions other than those related to financing and cash position, which are classified as operating expenses.

1.2.4. Corporate income tax expense

Corporate income tax expense is based on the taxable profit of the current period.

2. RECOGNITION

The recognition criterion for expense is the “performance of the service”.

2.1. Operating expenses

Due to the different types of expense included in the category operating expenses, the performance of the service may take different forms. It may take the following forms:

- > in the case of goods, performance of the service corresponds to the delivery of the uncapitalised supplies and goods ordered;
- > in the case of services, performance is carrying out the service. However, the issuance costs of debt securities may be spread over the life of the securities as is appropriate considering the redemption conditions;
- > in the case of staff compensation, performance takes the form of the service provided by staff;
- > in the case of long term contracts², performance is determined by reference to the stage of completion of contracts at the reporting date. When it is likely that the total costs related to the contract will be greater than the total revenues, the expected loss shall be recognised as an expense.

In the case of expenses arising from risks related to the entity’s operating activity, the recognition criterion is the occurrence of the event giving rise to the risk. This applies to disputes.

2.2. Intervention expenses

In the case of intervention expenses, the performance of the service corresponds to the fulfilment or the continued fulfilment, over the reporting period, of all of the conditions necessary to establish the beneficiary’s rights, which are formally recognised by the entity in an appropriation order which is issued prior to, after or concomitantly to the said fulfilment or continued fulfilment.

2.3. Financial expenses

Interest expense is accrued on a time basis when it is earned by the other party.

Financial discounts shall be recognised on the basis of the discount attributable to the period as calculated by the actuarial method.

² See Standard 19 “Long Term Contracts”.

Financial losses shall be the recognised in the period when they occur.

2.4. Corporate income tax expense

Corporate Income Tax is an expense of the period in which the operating activity gives rise to the events for which current or deferred taxation is due.

Taxation is recognised at the rate in force at the reporting date.

3. DISCLOSURE

3.1. Principle

Details of the amounts of expenses presented in the entity's financial statements are provided in the notes.

Appropriate disclosure is made in the notes of any unusual transactions included in the different expense categories which have a significant effect on the surplus or deficit for the period.

3.2. Operating expenses

Staff costs are broken down into compensation and other staff costs. In addition, the notes provide the following information on the headcount: number of staff by category, information on full-time and part-time staff.

3.3. Intervention expenses

Intervention expenses are broken down by category of beneficiary in the notes.

3.4. Corporate income tax expense

The notes provide information on the nature of the taxable activity.

3.5. Deferred expenses

The notes provide information about the amount, the nature and the basis for allocating deferred expenses by period.

STANDARD 4 REVENUE

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STANDARD 4 REVENUE

Introduction

This Standard defines the operating revenue and financial revenue of an entity. It prescribes recognition criteria determining in which period revenue is recognised as well the relevant measurement rules.

I. DEFINITIONS

The type of revenue within the scope of this Standard is not specific to entities: it includes grants received from Central Government and other parties, sales of goods and services, revenue from financial assets and royalties from the use of assets by third parties, etc.

The Standard identifies two types of revenue: operating revenue and financial revenue.

Operating revenue includes all revenue from the entity's operating activities broken down under two headings:

- > exchange revenue (sales of goods and services, revenue from disposal or use of tangible and intangible assets by third parties, etc.); and
- > non-exchange revenue, arising from a transaction in which the entity receives resources from an entity without providing equivalent consideration in exchange (grants received, donations and bequests, etc.).

Financial revenues are generated by financial assets, short-term investments, cash and financial instruments. Exchange gains on non-cash or financing transactions are classified in a similar manner to exchange losses based on the type of transaction i.e. in operating revenue.

The Standard does not adopt the concept of exceptional or extraordinary revenue. This position, also adopted for Central Government Accounting Standards, is justified by the fact that the entity's transactions are necessarily consistent with its mission and consequently cannot be of an exceptional nature. Moreover, it is difficult to define what constitutes an exceptional event. This approach also reduces the risk of different entities adopting inconsistent accounting treatment.

II. RECOGNITION

According to the accrual principle, revenue is recognised when it is earned by the entity, provided the revenue or profit or loss on the transaction, in the case of long term contracts, can be measured reliably.

The Standard defines this principle by revenue category and makes a distinction between recognition criteria for operating and financial activities.

III. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

III.1 Position of the Standard as compared to Central Government Accounting Standards

III.1.1 Intervention revenues

Central Government Accounting Standard 4 identifies the three following revenue categories: operating revenues, intervention revenues and financial revenues.

Intervention revenues are revenues provided by third parties which do not receive equivalent consideration in exchange. In the case of Central government, they are mainly comprised of support funds and grants from the European Community.

Intervention revenue was not adopted as a separate category for entities because of the difficulty of differentiating intervention and operating revenues. Indeed, operating grants are the main source of funding that enables entities to fulfil their public service mission. This type of revenue is therefore classified as a component of operating revenue.

III.1.2 Financial revenues

Contrary to Central Government, entities are entitled to hold short-term investments. This Standard therefore introduces the relevant requirements.

III.2. Position of the Standard as compared to the French General Chart of Accounts

The French General Chart of Account requires the presentation of operating expense/revenue, financial expense/revenue and exceptional expense/revenue in the income statement.

As stated above, this Standard does not adopt the concept of exceptional revenue. In this respect, the Standard diverges from the French General Chart of Accounts which provides for “exceptional items” without defining them.

On the other hand, the recognition and measurement requirements in the Standard for operating revenue and financial revenue, in particular the accounting treatment of revenue from short term investments (interest, disposals, etc.) are based on the French General Chart of Accounts.

III.3. Position of the Standard as compared to international accounting standards

III.3.1. IPSAS

The Standard is consistent with IPSAS 9 “Revenue from Exchange Transactions” and IPSAS 23, “Revenue from Non-Exchange Transactions”.

IPSAS 1 “Presentation of Financial Statements” does not require the presentation of an extraordinary surplus or deficit. However, unlike IAS 1, IPSAS 1 does not explicitly preclude the presentation of extraordinary items of revenue and expense on the face of the statement of financial performance or in the notes. The entity is therefore free to disclose such information if it wishes, or if it considers that it would be helpful to the users of the financial statements. This is however only an option and it is therefore possible to conclude that this Standard is consistent with IPSAS 1.

III.3.2. IFRS

The scope of exchange transactions adopted for the Standard is consistent with IAS 18 “Revenue”.

The principles adopted for the presentation of the financial statements are the same as those of IAS 1 “Presentation of Financial Statements” namely the presentation of two categories of profit or loss: operating and financial. However, the concept of exceptional profit or loss has been abandoned except as an option in IPSAS 1 (see above).



STANDARD 4 REVENUE

Requirements

This Standard applies to the operating revenue and financial revenue of an entity.

1. DEFINITIONS

1.2. Definitions

An entity's revenue is defined as an increase in its assets or a decrease in its liabilities which is not directly offset by the disposal of an asset or an increase in liabilities.

1.2. Revenue categories

1.2.1. Operating revenues

Operating revenue is revenue that arises directly from the entity's operating activity. It comprises:

- > exchange revenue:
 - sales of goods and services;
 - proceeds of asset disposals;
 - other revenue;
 - increases in inventories of finished goods and work in progress and capitalised production;
 - revenue from contracts for the provision of public service;
 - reversal of depreciation, impairment and provisions related to operating revenue;
 - asset funding revenue;
 - other revenue.
- > non-exchange revenue:
 - subsidies for public service expenses;
 - operating grants from State and other public entities;
 - intervention funding grants from State and other public entities;
 - donations and bequests;
 - allocated taxation revenue;
 - other revenue.

1.2.2. Financial revenues

Financial revenues are generated by financial assets, short-term investments, cash and financial instruments and guarantees granted by the entity.

Financial revenues include:

- > revenue from loans and investments;
- > gains on disposal of financial assets;
- > interest on current receivables;
- > revenue from short-term investments and cash;
- > gains on disposal of short-term investments;
- > exchange gains on financial debt, financial instruments financiers and cash components;
- > other financial revenue arising from financial instruments, cash components and guarantees granted by the entity;
- > reversal of depreciation, impairment and financial provisions.

Exchange gains on transactions other than those related to financing and cash position are excluded. Non-financial exchange gains are classified with the transactions to which they relate.

2. RECOGNITION

2.1. General principle

Revenue is recognised when it is earned by the entity.

Revenue is recognised in the period it is earned by the entity provided it can be measured reliably.

2.2. Operating revenues

The recognition criterion for sales of goods is delivery.

The recognition criterion for services is performance of the service.

The recognition criterion for grants is the satisfaction of the conditions for awarding the grant.

The recognition criterion for unconditional grants is the notification of the award. In the case of Central Government grants (for example to cover the cost of operating a public service) the grant is recognised in the period in which the entity implements the relevant public policy. The implementation is formally recognised in the award decision.

Tax revenue allocated to an entity, collected by Central Government or by the entity, is recognised in accordance with the general principle whereby revenue is recognised in the period when the entity is entitled to it, taking account of the lapse of time required for making the relevant tax declarations. Therefore, this revenue is recognised when the taxable event takes place or when the tax declaration is made, according to the circumstances.

In the case of long term contracts, where the outcome can be reliably estimated, revenue is recognised according to the stage of completion of the contract at the reporting date.

Revenue from contracts for the provision of a public service is recognised on a straight line basis over the life of the contract, where the latter is a renewal or a build and operate contract in which the equipment is funded by the entity. The performance-related portion of this revenue is recognised in the period in which the performance is achieved.

Revenue is recognised in the surplus or deficit statement net of the effect of debt discharge decisions cancelling the validity of the receivable initially recognised.

2.3. Financial revenues

Interest income arising from invested funds is recognised on a time basis when it accrues to the entity.

The entity recognises the portion of premium revenue allocated to the period on an actuarial basis.

Financial gains are recognised as revenue when they occur or are realised.

3. DISCLOSURE

3.1. Principle

Details of the amounts of revenue presented in the entity's financial statements are provided in the notes.

Appropriate disclosure is made in the notes of any unusual transactions included in the different revenue categories which have a significant effect on the surplus or deficit for the period.

3.2. Operating revenues

A breakdown of revenue from exchange and non-exchange transactions is provided in the notes.

Information on the entity's sales of goods and services is also provided.

Entities that are parties to long term contracts or similar transactions provide a description of those contracts and information on the method adopted for allocating revenue.

Operating revenue arising from the provision of staff is disclosed.

3.3. Financial revenues

The method adopted for presenting profit and loss on disposals in the surplus or deficit statement is disclosed as well as information on the profit on disposals of financial assets.

3.4. Deferred revenue

The nature, amount and allocation method for deferred revenue are disclosed in the notes.



STANDARD 5

INTANGIBLE ASSETS

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STANDARD 5 INTANGIBLE ASSETS

Introduction

I. BACKGROUND, DEFINITION AND RECOGNITION CRITERIA

I.1. Background

Intangible assets arise mainly from the entity's investments in information and communication technologies (software, research and development, computer projects, etc.) but also from rights it owns or develops (patents, licences,). Certain entities specifically carry out research for this purpose.

An examination of entities' intangible assets shows that, unlike Central Government, they do not hold specific rights requiring recognition in the balance sheet.

The recognition of intangible assets has a dual purpose:

- > to present a true and fair view of the entity's financial position;
- > to enable the allocation of expense over the useful life of the asset through depreciation.

I.2. Definition

An intangible asset is an identifiable non-monetary asset ¹ with no physical substance, expected to be used over more than one period with a positive economic value for the entity, embodying expected future economic benefits or service potential from its use.

This Standard adopts the requirements of the French General Chart of Accounts and Central Government Accounting Standards in respect of assets incorporating both intangible and tangible elements; in this case an entity uses judgement to assess which element is more significant. This approach addresses:

- > the case where intangible assets are recorded on a physical medium : in this case, the intangible element of the asset is more significant than the tangible element. Indeed, since the value of the blank medium is negligible compared to its contents, the asset incorporating the physical medium and its contents is recognised as an intangible asset;
- > the case of an intangible asset that is an integral part of a tangible asset (operating system of a computer, computer software for a computer-controlled machine tool, etc.): in this case, the tangible element of the asset is more significant than the intangible element (since the intangible element is an integral part of an asset that cannot operate without the tangible element).

¹ Intangible assets differ in this respect from financial assets and other monetary assets recognised in the balance sheet.

I.3. Recognition criteria

An intangible asset is recognised in the financial statements if it meets both of the following conditions:

- > it is controlled by the entity;
- > its cost or value can be measured reliably.

Where assets are acquired or produced as an indivisible unit, for which only the total acquisition or production cost is known, the acquisition or production cost of each asset is obtained by allocating total cost on the basis of the value of each individual asset. This value may be obtained by difference where no direct valuation is feasible.

Acquired intangible assets

The information needed to recognise intangible assets on acquisition can be found directly on the seller's invoice.

Acquisition cost comprises purchase price and all the directly attributable costs. Transfer taxes, fees, commissions, legal and borrowing costs², are also included in the acquisition costs of an intangible asset. Entities subject to corporate income tax may opt on an irrevocable basis to recognise ancillary costs as an expense.

Internally generated intangible assets

The recognition of internally generated intangible assets is the result of an accounting mechanism whereby expenditures initially recorded as expenses are capitalised. This means it is critical to have a system for tracking production costs before considering their capitalisation.

Production cost includes the costs of materials and services used or consumed in generating the intangible asset, salaries and other staff costs directly related to producing the asset, registration duties, depreciation of patents and licences that are used to generate the intangible asset, patent registration fees, the direct cost of acquiring and developing software (integrated software) and borrowing costs³.

Where an entity elects to capitalise borrowing costs⁴, the election applies to all qualifying assets⁵, that is to fixed assets (intangible and tangible assets acquired or produced) and to inventories (in the conditions stipulated in Standard 8).

The Standard introduces a project approach to facilitate the identification of the cost of internally generated intangible assets. It reflects the need for a formal identification of the works that may subsequently result in the production of an intangible asset.

The Standard adopts the classification of projects into a preliminary research phase and a development phase. The two phases are distinguishable because, in the preliminary research

² Where applicable, for entities authorised to take out loans.

³ Where applicable, for entities authorised to take out loans.

⁴ Entities subject to corporate income tax may opt on an irrevocable basis to recognise these ancillary costs as an expense.

⁵ French General Chart of Accounts art. 213-9 "A qualifying asset is an asset that requires a substantial period of preparation or construction to get ready for its intended use or sale".

phase, the uncertainties are so great that it is impossible to identify an intangible asset. This means that only the expenditures on the development phase can be capitalised.

The Standard defines the general recognition criteria applicable to the development phase of a project. It appears more appropriate to define general criteria than specific criteria for each class of intangible assets. Specific criteria would require a level of precision that may not be adapted to technological change.

Jointly controlled intangible assets

For the sake of consistency with tangible assets, the Standard envisages the unusual situation in which an intangible asset is jointly controlled by several entities.

A jointly controlled intangible asset is an intangible asset of which the conditions of use, service potential and economic benefits are jointly controlled by several entities according to the terms of an arrangement.

The characteristics of joint control are on the one hand that none of the parties to the arrangement can unilaterally exercise control over the conditions of use, service potential and economic benefits of the asset, and on the other hand that strategic financial and operating decisions require the unanimous consent of parties sharing control.

Where intangible assets are jointly controlled by several entities, each entity recognises its share of the jointly controlled intangible asset. The Standard explains how the share is determined.

II. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

II.1. Position of the Standard as compared to Central Government Accounting Standards

In general, the requirements of this Standard are similar to those of Central Government Accounting Standard 5 “Intangible Assets”. In particular, the definition of an entity’s intangible assets refers to expected service potential. Consistent with Central Government Accounting Standards, the Standard uses the example of internally generated software and introduces the project approach whilst describing the different project phases.

However, the specific features of entities as compared to Central Government mean that certain aspects of Standard 5 have been elaborated on or new requirements introduced. Thus the elements composing acquisition and production costs are set out in the requirements.

Conversely, the requirements applicable to Central Government in respect of specific intangible assets⁶ have been omitted because entities do not own this type of intangible asset.

⁶ Central Government owns specific rights, of an intangible nature, due to the exercise of sovereignty; the latter entitles Central Government to revenue from holding these rights.

II.2. Position of the Standard as compared to the French General Chart of Accounts

The Standard is generally consistent with the French General Chart of Accounts, in particular with respect to the project approach and the related recognition criteria for internally generated software and research and development. However, the Standard uses a broader definition of development than the French General Chart of Accounts.

II.3. Position of the Standard as compared to international accounting standards

IPSAS 31 defines an intangible asset as an identifiable non-monetary asset with service potential. Central Government Accounting Standard 5 “Intangible Assets” and this Manual are based on this definition.

However, the requirements of IPSAS 31 relating to specific intangible assets have been omitted as unlike Central Government entities do not own intangible rights of this kind.

The definition of the development phase for internally generated software in IAS 38 and IPSAS 31 has been adopted both in this Standard and in Central Government Accounting Standards.



STANDARD 5 INTANGIBLE ASSETS

Requirements

1. DEFINITION AND CHARACTERISTICS

1.1. Definition

An intangible asset is an identifiable non-monetary asset with no physical substance expected to be used over more than one period, with a positive economic value for the entity embodying expected future economic benefits or service potential from its use.

An intangible asset is identifiable if it:

- > is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset or liability; or
- > arises from legal or contractual arrangements regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

1.2. Characteristics

An intangible asset may consist of expenditure that contributes to an identifiable and lasting improvement of the entity's capacity to fulfil its mission and carry out its activities. Intangible assets may be acquired or internally generated as part of a project (patents, software, websites etc.).

Certain assets may incorporate both intangible and tangible elements. In determining whether an asset that incorporates both elements should be treated as a tangible or as an intangible asset, an entity uses judgement to assess which element is more significant.

If an asset incorporates both intangible and tangible elements, no intangible asset is recognised where the tangible element cannot function without the intangible element. The whole asset is then classified as tangible.

2. RECOGNITION CRITERIA

An intangible asset is recognised in the financial statements if it meets both of the following conditions:

- > it is controlled by the entity;
- > its cost or value can be measured reliably.

The entity applies these recognition criteria at the time the costs are incurred, except for internally generated intangible assets.

2.1. Control

Control generally takes a specific legal form (ownership or right of use) and is characterised by:

- > the ability to govern the conditions of use of the asset;
- > the ability to govern the service potential and/or future economic benefits derived from using the asset.

The fact that the entity bears the risks and expenses associated with holding the asset also constitutes a presumption of control.

Consequently recognition of an intangible asset takes place on the date control is transferred, which is usually the date of the transfer of the risks and rewards associated with holding the asset.

2.2. Reliable measurement

An intangible asset is recognised on the condition that its cost or value can be measured reliably.

2.3. Internally generated intangible assets

Internally generated intangible assets are intangible elements created and identified through the completion of a defined project, which meet the criteria for recognition as intangible assets. Internally generated intangible assets may arise from such activities as the development of a manufacturing process for a new material or the production of new software.

Project phases

A project comprises two phases:

- > a preliminary research phase that usually involves acquiring new knowledge, analysing needs, defining final objectives, evaluating various technical possibilities, choosing a solution and determining what resources are needed;
- > a development phase that generally involves using the results of the research phase and other resources to implement the chosen solution.

The completion of the development phase of a project corresponds to the production of the final results planned before the intangible asset is put into service.

Some projects involve research only (acquisition of new knowledge, design and evaluation of different technical solutions, etc.).

If a project starts directly with the development phase, this circumstance must be explicitly stated before the project gets under way.

Specific accounting requirements

In the research phase of a project, an entity cannot demonstrate that an intangible asset exists. Therefore, this expenditure is recognised as an expense when it is incurred.

If an entity cannot distinguish the research phase from the development phase, all project expenditure incurred is treated as an expense.

On the other hand, an internally generated intangible asset arising from the development phase of a project shall be recognised, if the entity can demonstrate that all the following conditions have been met:

- > it is reasonable to assume that the project is technically feasible and its objectives realistic in the light of existing technical knowledge;
- > the entity intends to complete the project and use the results;
- > the entity can demonstrate that completion of the project will generate future economic benefits or service potential over several periods;
- > the entity has the ability to use the results of the project on completion;
- > the entity has adequate technical, financial and other resources to complete the project;
- > the entity can measure reliably the expenditure attributable to the intangible asset during its development.

The expenditures incurred during the development phase are recognised as work in progress on intangible assets until completion of the project.

On completion of the project, all expenditure incurred during the development phase is transferred to intangible assets in service. No further expenditure on the project should be recognised as work in progress on intangible assets.

If a project proves to be infeasible during the development phase, all of the previously capitalised expenditure must be recognised as expense.

2.4. Recognition of subsequent expenditure

Expenditure incurred on an intangible asset after initial recognition shall be recognised as expense, unless it has the effect of increasing the useful life or service potential of the asset above their original levels.

2.5. Recognition of jointly controlled assets

Where intangible assets are jointly controlled by several entities, each entity recognises its share of the jointly controlled asset.

Assets jointly controlled by all the funding entities

Unless otherwise agreed by the parties, an entity's share in the jointly controlled asset is considered to be proportional to its share in the funding of the asset.

Assets jointly controlled by certain of the funding entities

Where assets are funded by several entities but only jointly controlled by certain entities, each "controlling" entity recognises its share of the asset proportionally to its share in the funding, increased by the amount of funding from non-controlling entities.

“Controlling” entities recognise the funding from non-controlling entities¹ proportionally to their share of control. As a result, the total of the asset shares recognised by each controlling entity is equal to the total value of the asset.

3. MEASUREMENT

3.1. Measurement on initial recognition

Intangible assets are measured:

- > at acquisition cost (assets acquired for a purchase consideration);
- > at production cost (internally generated assets);
- > at market value (assets acquired free of charge).

3.1.1. Elements of acquisition cost

The acquisition cost of a separately acquired intangible asset comprises:

- > its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- > any directly attributable cost of preparing the asset for its intended use. Transfer taxes, fees, commissions, and legal costs are included in the acquisition cost of an intangible asset. Entities subject to corporate income tax may opt on an irrevocable basis to recognise ancillary costs as an expense.

The starting point for identifying the cost of the asset is the date on which the entity takes the decision to acquire or produce the asset and can demonstrate that it will generate future economic benefits.

Borrowing costs that are directly attributable to the acquisition of an asset or bringing it into service may be capitalised up until completion of those assets which require a substantial design and construction period in order to make them suitable for use.

3.1.2. Elements of production cost

The cost of an internally generated intangible asset includes all the expenditure directly attributable to creating, producing and preparing the asset for its intended use by the entity.

Borrowing costs that are directly attributable to the construction or production of a qualifying asset may be capitalised up until completion of the latter, which requires a substantial design and construction period in order to make it suitable for use.

Transactions occurring before or during the development period which are not necessary to bring the asset into working condition for its intended use are recognised as expense in the surplus or deficit statement.

¹ Entities that have funded the asset without controlling it recognise the payment as an expense in accordance with the requirements for investment grants payable.

3.2. Measurement on the reporting date

3.2.1. General principle

An intangible asset with a finite useful life (i.e. with a limit to its expected period of use) is amortised.

An intangible asset is measured at acquisition cost less amortisation and impairment.

3.2.2. Amortisation

The amortisation schedule of an intangible asset is designed to reflect the pattern in which the asset's economic benefits or service potential are expected to be consumed.

Amortisation shall begin on the date when the consumption of the associated economic benefits or service potential starts. This is usually the date when the asset is available for use.

On the reporting date, amortisation is recognised according to the amortisation schedule defined on acquisition.

Amortisation is recognised as an expense.

3.2.3. Impairment

Any loss of value observed at the reporting date shall be recognised as an impairment loss and recorded as an expense.

At the end of each reporting period, an entity shall assess whether there is any indication that an intangible asset may be impaired. If any such indication exists, the entity shall carry out an impairment test.

3.2.4. Subsequent changes

If there has been a significant change in the expected pattern or period of consumption of the future economic benefits or service potential embodied in the asset, the amortisation schedule for future periods shall be revised. Similarly, where a provision for impairment loss is recognised or reversed, as a result of comparing the asset's carrying value to its recoverable amount, an adjustment is made to its residual value for the purposes of future amortisation.

4. DERECOGNITION

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

5. DISCLOSURE

5.1. Method of allocating expenditure to capital projects

The notes describe the methods used for allocating expenditure to development projects which on completion are recognised as intangible assets.

5.2. Information on intangible assets

An entity shall disclose for each class of intangible asset the changes in gross and net carrying amounts (acquisitions, disposals, revaluations, impairment losses, amortisation and similar items, etc.).

5.3. Information on amortisation and impairment

The following disclosures are required for material items.

Amortisation

For each class of intangible asset, an entity discloses:

- > the amortisation periods or rates used;
- > the nature and effect of a change in accounting estimate having a substantial impact on the current period, or which is expected to have a significant impact in future periods.

Impairment

The following disclosures are made for each material impairment loss, recognised or reversed during the period for an individual asset:

- > the amount of impairment loss recognised or reversed;
- > the recoverable amount on the reporting date, either market value or value in use:
 - if market value is provided, the basis used to determine it (by reference to an active market or any other method);
 - if value in use is provided, the method used to determine it;
- > the events and circumstances that led to the recognition or reversal of impairment losses.

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STANDARD 6

TANGIBLE ASSETS

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STANDARD 6 TANGIBLE ASSETS

Introduction

This Standard applies to all tangible assets except heritage assets and contracts for the provision of public services, which are dealt with in Standard 17 “Heritage Assets” and Standard 18 “Contracts for the Provision of Public Services”.

I. DEFINITION AND RECOGNITION CRITERIA FOR TANGIBLE ASSETS

The definition and recognition criteria for tangible assets adopted for this Standard are similar to those applicable to business entities, subject to the following specific features.

I.1. Definition of an asset in public sector accounting

An entity’s tangible assets are assets that can be used to generate future cash flows, but also non cash-generating assets with service potential.

I.2. Recognition criteria: general principles

This Standard requires both of the two following conditions to be met for recognition of a tangible asset:

- > the tangible asset is controlled by the entity;
- > its cost or value can be measured with sufficient reliability.

The control criterion is of particular importance for entities. This is because, a large number of assets belonging to entities may be transferred to other entities or Central Government, which control the conditions of use of the assets and can derive economic benefit or service potential from them. Similarly, an entity may control assets transferred to it by other public entities which retain legal ownership of the assets.

The reliability of measurement criterion is applied without prejudice to the measurement requirements specified by the Standard for certain fixed assets.

Materiality thresholds

The entity may fix materiality thresholds per item¹ taking into account the diversity of its tangible asset portfolio and the sometimes slender distinction between tangible assets and expense. These thresholds may be fixed, for example, by class of items or type of activity.

¹ The grouping of items is not allowed; therefore the thresholds may apply only to individual items of fixed assets or potentially capitalised subsequent expenditure.

I.3. Recognition criteria: specific cases

I.3.1. Assets not previously recognised due to particular situations

There are two particular situations in which an entity may be led to make a one-off adjustment within a restricted time frame to recognise tangible assets not previously recognised in its accounts.

Tangible assets that are inventoried but not recognised

The first situation arises where assets are inventoried but were not recognised because their acquisition cost was unknown or no valuation was available which made it impossible to recognise the asset under the applicable accounting requirements.

- (a) This situation covers tangible assets which were not recognised by the entity because the recognition requirements were not satisfied (for example, inability to measure the asset reliably).
- (b) This situation includes both inventoried but unrecognised tangible assets and inventoried and partly recognised tangible assets. These may, for example, be assets which the entity has never recognised except for the amount of any improvements it may have carried out (extensions, fittings, etc.).
- (c) Tangible assets transferred to an entity which the transferee was unable to recognise for practical reasons are also concerned. This is because, the transfer agreements drawn up to formalise transfers between public sector entities were often of a general nature and did not provide sufficient detail of the value of individual assets. In these cases, entities must carry out a full inventory and a valuation prior to recognising the relevant assets.

Assets recently inventoried as part of a self-initiated plan

The second situation relates to tangible assets recently inventoried as part of a self-initiated plan within a restricted time frame to upgrade the accounts including a full inventory of the entity's assets.

I.3.2. Transferred assets

These may be assets made available to the entity or assets the entity provides to other public entities².

The Standard requires entities to recognise all of the assets that they manage and control and not just the controlled assets that they own. According to this logic, the purpose of the balance sheet is not only to determine the rights of third parties with regard to the entity, but to provide the users of the financial statements, the authorities that manage, monitor and, where applicable, control the entity with accurate information about the substance and the value of the assets available to the entity on a permanent basis, and in any form whatsoever, in order to enable the entity to fulfil its mission. The assets are transferred free of charge or for a nominal rent. Often the assets in question are buildings used as offices under an agreement.

² Commonly known as transfers.

Assets belonging to the entity that are transferred to other public entities, without transfer of title, are recognised in the balance sheet of the transferee. Transfers may also be made to private entities. The control criteria apply equally to transfers made to private entities.

Similarly, assets belonging to another public entity that are transferred to the entity without transfer of title are recognised by the entity if the latter controls them.

The measurement basis applicable to assets transferred to or returned to an entity is set out in the requirements below.

I.3.3. Jointly controlled assets

A jointly controlled tangible asset is a tangible asset of which the conditions of use, service potential and economic benefits are jointly controlled by several entities according to the terms of an arrangement.

The characteristics of joint control are on the one hand that none of the parties to the arrangement can unilaterally exercise control over the conditions of use, service potential and economic benefits of the asset, and on the other hand that strategic financial and operating decisions require the unanimous consent of parties sharing control.

Where intangible assets are jointly controlled by several entities, each entity recognises its share of the jointly controlled intangible asset. The Standard explains how the share is determined.

I.3.4. Spares and safety stocks

Spare parts are usually recognised as inventory and expensed when they are used. However, where they are acquired at the same time as a fixed asset for which they are intended, the main spare parts and safety stocks are tangible assets, if the entity expects to use them over more than one accounting period, i.e. over a period of more than 12 months. In the same way, if the spare parts can only be used for one tangible asset, they are recognised as a tangible asset.

- > Safety stock is composed of major components of plant acquired for use in case of breakdown or accidental damage, in order to avoid a long interruption in the production process or a safety risk. Their replacement is not planned. The economic benefits related to these assets are a result of their immediate availability during the use of the main asset. Depreciation begins on acquisition of the main asset and is spread over the same lifespan.
- > The purpose of spare parts is to replace or be incorporated into a main asset, or included in possible subsequent expenditure of a capital nature. The economic benefits related to this asset will only be obtained once the part is effectively in use, after the replacement. Depreciation begins at the date of replacement of the part (i.e. on installation) and is calculated on the same basis as the related fixed asset into which it is incorporated.

I.4. Recognition of asset components

Under accounting rules applicable to business entities, a single depreciation schedule is applied to individual items that are operated together as a single asset. However, if from the outset, one or more items have significantly different conditions of use, each item is recognised separately and has its own depreciation schedule. This is because, the main components of tangible

assets needing replacement at regular intervals and which have significantly different conditions of use or generate economic benefits for the entity at a significantly different rate require the use of different rates or methods of depreciation and must be recognised separately on initial recognition and on replacement. Major expenditure that forms part of long-term maintenance and inspection programmes in application of legal or regulatory requirements or as regular practice of the entity must therefore be recognised from the outset as a separate component of the asset, if no provision has been set up for major maintenance and inspections. This applies to maintenance expense which has the sole purpose of maintaining plant in operational condition without extending its initial useful life, subject to meeting the recognition criteria for an asset. The component accounting approach to major maintenance and inspections is not compatible with the recognition of provisions for major maintenance and inspections.

The relevance of these requirements for entities should be examined in the light of their specific features and more specifically their non-market activities and sources of funding, usually in the form of grants. To the extent that depreciation is not a cost of sales and given the source of funding, it may not be necessary to distinguish different components with different depreciable lives on the basis of their expected renewal schedules. The governing body of each entity decides on the basis of its own situation whether to adopt component accounting.

Entities which have already adopted component accounting continue to apply it unless their governing body decides otherwise.

1.5. Subsequent capitalisable expenditure

1.5.1. General principles

Subsequent expenditure is capitalised if it is probable that future economic benefits or service potential will flow to the entity, which is greater than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality.

Minor repairs, routine upkeep and maintenance, one for one replacement or restoration without improvement are recognised as expense of the period in which they are incurred.

Any subsequent expenditure of a capital nature is recognised as an asset separately from the main asset to which it relates, or as a component of the latter. The applicable depreciation schedule is based on the nature of the asset. If the capitalisable subsequent expenditure is a replacement of all or part of the main asset, and the latter is not fully depreciated, then depreciation schedule will be reviewed accordingly. Subsequent expenditure may take the form of major repair programmes (See 1.5.4 below).

If the capitalisable subsequent expenditure is a replacement of the main asset or a component that is not fully depreciated, the entity derecognises the carrying value of the asset or component.

If the capitalisable subsequent expenditure is a replacement of a part of the main asset or a component that is not fully depreciated, additional depreciation is recognised in accordance with the requirements of this Standard.

I.5.2. Upgrading and compliance expenditure

Tangible assets acquired for safety or environmental purposes, although they do not directly increase the future economic benefits generated by a particular existing asset, are capitalised if they are instrumental in the entity obtaining the economic benefits from its other assets.

The recognition requirements for these assets constitute an exception to the general requirements applicable to tangible assets. This is so because, in this case, the assessment of economic benefits or service potential is not limited to the existing asset but extended to the group of related assets.

These requirements do not apply to all compliance expenditure but only to the costs of acquisition, production or improvements meeting all of the three following conditions:

- > expenditure incurred for the safety of persons or for environmental reasons;
- > legal obligations;
- > and non-implementation would degrade service potential or lead to a shutdown of the activity or prevent the use of the asset by the entity.

I.5.3. Dismantling and site restoration costs

The accounting treatment depends on whether or not the deterioration which creates the obligation to restore is a consequence of future operational needs:

- > If the deterioration is an inevitable consequence of future operating activity (such as plant used for an activity which will be dismantled when the activity ceases), the deterioration is deemed to occur immediately. The obligation is a consequence of the very nature of the asset and the obligation is identified from the outset. Thus, the costs of dismantling an asset are costs that the entity is obliged to incur on ceasing its activity. The total liability for dismantling costs must be recognised as a provision when the asset is put into service or when there is a legal or regulatory obligation to do so. Where a provision for restoration cost is set up, the cost of the asset is incremented accordingly on initial recognition of the latter. If any outside event modifies the obligation to dismantle (for example, reinforcement of environmental regulations), a new estimation is carried out and treated as change in estimation.
- > Expenditure resulting from an obligation to repair damage which is not related to future operating activity (for example, accidental pollution caused by an unforeseen accident) is recognised when the cost is incurred (usually as a provision). When the expense is incurred, it is recognised in expense and the corresponding provision is reversed.
- > Expenditure resulting from “progressive” deterioration, i.e. observed progressively over the useful life of the asset (such as pollution proportional to the level of operating activity), is recognised as and when the deterioration is observed. When there is a legal or regulatory obligation to restore, a provision for expense is recognised as and when the deterioration is observed, for the amount of restoration work required based on the actual deterioration at the reporting date.

I.5.4. Major repair programmes

Subsequent expenditure equivalent to major repairs of a tangible asset is capitalised if it is probable that future economic benefits or service potential will flow to the entity, which is greater

than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality.

Any subsequent expenditure equivalent to a major repairs programme of assets recognised at depreciated historical cost or at a token or non-revisable fixed amount is recognised as an asset separately from the main asset to which it relates, if it is of a capital nature (See second paragraph below). In addition, a depreciation schedule separate to that of the main asset is applicable to the component according to its nature.

Consequently, it is necessary to determine whether the repairs of an asset have the characteristics of reconstructions, major or routine maintenance.

- > Reconstructions are recognised as an addition to tangible assets separately from the main asset.
- > Repairs that form part of long-term major maintenance and inspection programmes which have the purpose of maintaining the main asset in operational condition. Separately identifiable expenditure relating to the main asset may be recognised as a provision for major maintenance by those entities that do not apply component accounting or recognised as a component separate from the main asset.
- > Routine maintenance is recognised as an expense when it occurs.

I.6. Classes of tangible assets

A class of tangible assets is a group of assets with similar characteristics and use in the entity's operations, which is included in the same line item in the financial statements.

The measurement rules for the entity's tangible assets are defined by class of assets.

The following classes of assets shall be presented separately in the entity's financial statements:

- > Land, including building land, arable and cropland.
- > Land development and improvement: this class includes expenditure such as fencing, earthworks and drainage.
- > Natural sites (moors, beaches, dunes, ponds, lakes, etc.) and where applicable cemeteries outside the scope of Standard 17 "Heritage Assets": land with a service potential intrinsically linked to considerations of public interest.
- > Constructions: they include mainly buildings, plant, fixtures and fittings and infrastructures.
- > Constructions on third party land: These are constructions built by the entity on land it does not own.
- > Technical facilities, equipment and tools.
- > Collections: a collection is a set of objects or items of property which the entity intends to keep. It may consist of a set of works or publications, data supports or a site to be managed (park, arboretum, etc.). Collections are not of a depreciable nature. Certain collections are within the scope of Standard 17 "Heritage Assets".

- > Other tangible assets: They consist of the sundry fixtures and fittings relating to constructions which are not owned by the entity, vehicles, office and computer equipment, furniture, livestock, recoverable packaging and cultural assets not within the scope of Standard 17 "Heritage Assets".
- > Tangible assets in progress.

II. MEASUREMENT

II.1. Measurement on initial recognition

II.1.1. General principles

On initial recognition tangible assets are measured as follows:

- > Assets acquired for purchase consideration are measured at acquisition cost;
- > Assets produced by the entity are measured at production cost;
- > Assets acquired free of charge, in exchange for another asset or as a capital contribution in-kind are measured at market value.

These general principles are elaborated on in the requirements.

In addition, where the entity is authorised to borrow, borrowing costs³ may be capitalised in the acquisition cost of the tangible asset. Where an entity elects to capitalise borrowing costs⁴, the election applies to all qualifying assets⁵, that is to fixed assets (intangible and tangible assets acquired or produced) and to inventories (in the conditions stipulated in Standard 8).

Natural sites (moors, beaches, dunes, ponds, lakes, etc.) and where applicable cemeteries not within the scope of Standard 17 "Heritage Assets" are measured at a token or non-revisable fixed amount because of their service potential intrinsically linked to considerations of public interest.

The Standard sets out specific requirements for tangible assets transferred from one public sector entity to another (when taking or re-taking control).

II.1.2. Assets not previously recognised due to particular situations

Tangible assets inventoried but not recognised and tangible assets recently inventoried as part of a self-initiated plan, for which specific requirements exist, were generally acquired free of charge. This is because these assets often originate from previous transfers which, for different reasons (where recognition was not required by previous accounting rules or due to measurement difficulties, etc.) were not recognised in the accounts of the transferee.

On initial recognition, these tangible assets are treated as assets acquired free of charge. Consequently, they are measured at market value which is deemed, by convention, to be the

³ Where an entity elects to capitalise borrowing costs, the election applies to all qualifying assets, that is to fixed assets (intangible and tangible assets acquired or produced) and to inventories (according to the conditions stipulated in Standard 8).

⁴ Entities subject to corporate income tax may opt on an irrevocable basis to recognise these ancillary costs as an expense.

⁵ French General Chart of Accounts art. 213-9 "A qualifying asset is an asset that requires a substantial period of preparation or construction to get ready for its intended use or sale".

historical cost. Market value is the amount which could be obtained for the sale of an asset in a transaction carried out at normal market conditions, less costs to sell⁶.

Market value is the preferred measurement basis. However, where there is no observable market value, the relevant assets are measured at replacement cost. This measurement basis consists of the estimated replacement cost of the asset by a similar asset that would offer identical service potential. Net (depreciated) replacement cost is deemed by convention to be the historical cost.

In those cases, which must remain exceptional, where no reliable entry value (market value or replacement cost) is available, the assets are nevertheless recognised in the accounts. For practical reasons, the assets are recognised at a token amount of one euro, as the main objective is to ensure more reliable information for the financial statements thanks to a better follow up of the entity's assets.

The balancing entry for these tangible assets is in equity.

II.1.3. Transferred tangible assets

In order to reflect the continuity of the mission of public service, an asset transferred from one public entity to another is measured in the financial statements of the transferee entity at the carrying value in the accounts of the transferor at the transfer date, including where applicable the gross value, accumulated depreciation and any related impairment or provisions.

For different reasons, sometimes the transferred tangible assets may not be recognised in the accounts of the transferor (where recognition was not required by previous accounting rules or due to measurement difficulties, etc.). In these circumstances, it may prove difficult or impossible to reconstitute the historical cost of the transferred asset. In these circumstances, for practical reasons, the market value of the asset at the transfer date is deemed by convention to be the historical cost.

Transferred tangible assets that are returned are subject to the same requirements as those set out above.

The balancing entry for transferred assets is in equity: on the credit side for the transferee entity and on the debit side for the transferor.

II.2. Measurement at the reporting date

II.2.1. General case

A depreciable asset is carried at entry value less depreciation and impairment.

A depreciable asset is a fixed asset with a finite useful life for the entity. Useful life is measured by reference to the consumption of the expected economic benefits or the achievement of the service potential of the asset by the entity, according to the probable pattern of use over a limited period of time. The useful life and depreciation schedule are defined by the entity on the basis of the characteristics of the assets. The depreciable amount of the fixed asset consists of the gross amount after deducting a reliable estimate of its residual value. Consequently, a depreciable asset is depreciated by the systematic allocation of the depreciable amount of the

⁶ Costs directly attributable to disposal of the asset, excluding financial expense and corporate income tax expense, if applicable.

asset, reflecting the pattern in which the asset's future economic benefits or service potential is expected to be consumed. In addition, impairment tests are conducted to assess whether there is any indication of impairment. However, if the recoverable amount is not considered significantly lower than the carrying amount, no adjustment is made to the latter.

II.2.2. Non depreciable tangible assets

Certain assets are considered to have an indefinite useful life (the economic benefits and service potential are not expected to be generated by the asset over a limited period of time). This applies to land (except land containing mineral deposits), natural sites, cemeteries and collections which are measured at a non-revisable amount on the reporting date, but may be subject to impairment.

The requirements elaborate on the basis of measurement on the reporting date.

III. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

III.1. Position of the Standard as compared to Central Government Accounting Standards

In general, the requirements of this Standard are similar to those of Central Government Accounting Standard 6 "Tangible Assets".

Nevertheless, the classification of tangible assets differs from that of Central Government because the latter includes classes related to its sovereign function and missions.

The Standard allows entities to choose whether to apply component accounting as appropriate to reflect the diversity of management approaches and sources of funding that characterise their operating activities. This method is not applied by Central Government.

The measurement basis for tangible assets at the reporting date is historical cost less depreciation and impairment where appropriate. As a general principle, the same basis applies to Central Government Accounting Standards although the latter require measurement at market value or depreciated replacement cost for certain classes of assets. These measurement bases do not apply to entities.

Likewise, the Standard has not adopted the requirements of Central Government Accounting Standards which stipulate "The Standard bases its approach on the contractual effects of finance leases which transfer substantially all of the risks and rewards of ownership of the leased asset to the lessee. Consequently, the lease is recognised both as an asset and as an obligation to make future lease payments". Entities apply the French General Chart of Accounts to these transactions.

The option of capitalising borrowing costs that exists in the French Commercial Code and General Chart of Accounts (Commercial Code. Article R 123-178-2° and General Chart of Accounts ("PCG"), Articles 213.8 and 213.9) is available to certain entities because of the specific characteristics of their operating activity. This does not however apply to Central Government.

III.2. Position of the Standard as compared to the French General Chart of Accounts

The general principle of component accounting has not been adopted in the same conditions as in the French General Chart of Accounts and regulations applicable to certain entities. Instead, component accounting is applied by certain entities when it is appropriate to their market activity and funding arrangements. Entities which already apply component accounting continue to do so.

In accordance with measurement principles under general accounting regulations, assets are depreciated and where appropriate tested for impairment at the reporting date.

In the absence of specific requirements for spares and safety stocks and upgrading and compliance expenditure, certain entities referred to Article 213-21 of the Accounting Standards Authority (Autorité des normes comptables) regulation n° 2014-03 of 5 June 2014 relating to the French General Chart of Accounts. These requirements have been adopted in the Standard.

Lastly, additional requirements have been developed. They relate to the initial recognition of tangible assets not previously recognised due to particular situations, asset transfers between public sector entities and the treatment of major repairs programmes.

Specific guidance is also provided on transferred assets and jointly controlled assets because they are common transactions in the public sector

III.3. Position of the Standard as compared to international accounting standards

The requirements of this Standard are similar to those of IPSAS 17 Property, Plant and Equipment except for the option available under the latter to measure certain assets at market value on the reporting date.

Moreover, this Standard does not include the requirements of IPSAS 16 on investment property as entities do not normally hold investment property.



STANDARD 6 TANGIBLE ASSETS

Requirements

1. DEFINITION AND RECOGNITION CRITERIA FOR TANGIBLE ASSETS

1.1. Definition

A tangible asset is an identifiable physical asset for use over more than one accounting period that has a positive economic value for the entity.

This positive economic value is represented by the expected future economic benefits or service potential to be derived from the use of the asset.

1.2. Recognition criteria: general principles

This standard requires both of the two following recognition criteria to be met for tangible assets:

- > the tangible asset is controlled by the entity;
- > its cost or value can be measured with sufficient reliability.

The entity applies these recognition criteria to costs when they are incurred.

1.2.1. Control criterion

Control is characterised by:

- > the ability to govern the conditions of use of the asset;
- > the ability to govern the service potential and/or future economic benefits derived from using the asset.

The fact that the entity bears the risks and expenses associated with holding the asset also constitutes a presumption of control.

Recognition of a tangible asset takes place on the date control is transferred, which is usually the date of the transfer of the risks and rewards associated with holding the asset.

1.2.2. Reliable measurement criterion

A tangible asset is recognised on the condition that its cost or value is capable of being reliably measured.

1.3. Recognition criteria: specific cases

1.3.1. Assets not previously recognised due to particular situations

There are two particular situations in which an entity may be led to make a one-off adjustment within a restricted time frame to recognise tangible assets not previously recognised in its accounts. These situations are:

- > Tangible assets inventoried but not recognised;
- > Tangible assets recently inventoried as part of a self-initiated plan.

1.3.2. Transferred assets

Assets transferred to the entity

To qualify for balance sheet recognition, an asset must be controlled by the entity, which means the latter must have the power to manage the asset and bear the associated risks and expense.

Assets transferred to public sector entities

The entity's assets that are under the control of any other public sector entities are recognised in the balance sheet of those entities and not in the balance sheet of the entity.

1.3.3. Jointly controlled assets

Where assets are jointly controlled by several entities, each entity recognises its share of the jointly controlled asset.

Assets jointly controlled by all the funding entities

Unless otherwise agreed by the parties, an entity's share in the jointly controlled asset is considered to be proportional to its share in the funding.

Assets jointly controlled by one of the funding entities

Where assets are funded by several entities but only jointly controlled by certain entities, each "controlling" entity recognises its share of the asset proportionally to its share in the funding, increased by the amount of funding from non-controlling entities.

"Controlling" entities recognise the funding from non-controlling entities¹ proportionally to their share of control. As a result, the total of the asset shares recognised by each controlling entity is equal to the total value of the asset.

1.3.4. Recognition of asset components

The governing body of each entity decides whether to adopt component accounting.

¹ Entities that have funded the asset without controlling it recognise the payment as an expense in accordance with the requirements for investment grants payable.

1.3.5. The entity as project owner

Where the entity is the project owner for work on an asset that will no longer be under its control after delivery, the work in progress is deemed to be under the control of the entity provided it can demonstrate it controls the asset during the construction phase.

1.3.6. Spares and safety stocks

The recognition criteria for an asset apply as follows:

- > major spares and safety stocks that the entity expects to use over a period in excess of 12 months are tangible assets;
- > specific items that can only be used with a particular fixed asset (spares and servicing equipment) are always tangible assets.

1.4. Subsequent capital expenditure

1.4.1. General principles

Subsequent expenditure is capitalised if it is probable that future economic benefits or service potential will flow to the entity, which is greater than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality.

Consequently, minor repairs, routine upkeep and maintenance, one for one replacement or restoration without improvement are recognised as expense of the period in which they are incurred.

Any subsequent expenditure of a capital nature is recognised as an asset separately from the main asset to which it relates, or as a component of the latter. The applicable depreciation schedule is based on the nature of the asset. Subsequent expenditure may take the form of major repair programmes.

If the capitalisable subsequent expenditure is a replacement of a part of the main asset or a component that is not fully depreciated, additional depreciation is recognised in accordance with the requirements of this Standard.

1.4.2. Upgrading and compliance expenditure

Asset recognition criteria apply to expenditure incurred in acquisition, production or improvements meeting all of the three following conditions:

- > expenditure incurred for the safety of persons or for environmental reasons;
- > legal obligations;
- > and non-implementation would degrade service potential or lead to a shutdown of the activity or prevent the use of the asset by the entity.

1.4.3. Major repairs programmes

Any subsequent expenditure equivalent to a major repairs programme of assets recognised at depreciated historical cost or at a token or non-revisable fixed amount is recognised as an asset separately from the main asset to which it relates, if it is of a capital nature.

A depreciation schedule separate to that of the main asset is applicable to the component according to its nature.

1.5. Classes of tangible assets

The following classes of assets shall be presented separately in the entity's financial statements:

- > Land.
- > Land development and improvement.
- > Natural sites and where applicable cemeteries outside the scope of Standard 17 "Heritage Assets".
- > Constructions.
- > Constructions on third party land.
- > Technical facilities, equipment and tools.
- > Collections not within the scope of Standard 17 "Heritage Assets".
- > Other tangible assets.
- > Tangible assets in progress.

2. MEASUREMENT

2.1. Measurement on initial recognition

2.1.1. General principles

On initial recognition tangible assets are measured at acquisition cost, at production cost, at market value or at a token or non-revisable fixed amount except in the specific cases set out below.

Acquisition cost

Assets acquired for purchase consideration are recognised at acquisition cost.

Acquisition cost comprises the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

Ancillary costs to be added to the purchase price include:

- > costs for site preparation;
- > initial delivery and handling costs;
- > installation costs;
- > professional fees such as for architects and engineers.

Administrative and general overheads that can be directly attributed to the acquisition of the asset or bringing the asset to its working condition are also elements of acquisition cost. Start-up and similar pre-operating costs that are necessary to bring the asset to its working condition also form part of the acquisition cost of the asset².

Borrowing costs that are directly attributable to the acquisition of an asset or bringing it into service may be capitalised up until completion of those assets which require a substantial design and construction period in order to make them suitable for use.

Production cost

Assets produced by the entity are measured at production cost.

Production cost includes the costs of purchase and the other costs incurred by the entity during the production process to bring the asset to its present condition and location.

It is made up of the acquisition cost of materials consumed, direct and indirect production costs, the initial estimate of dismantling costs, removal costs and the cost of restoring the site on which the produced asset is situated.

Borrowing costs may where appropriate be included in production cost.

Market value

Assets acquired free of charge are measured at their market value at the acquisition date. Where no market exists, it is the presumed price a potential buyer would be prepared to pay.

A tangible asset may be acquired in exchange or part exchange for another tangible or other type of asset. The cost of such assets is determined by reference to the market value of the exchanged asset, adjusted for the amount of cash transferred in the exchange. If no reliable valuation can be determined, the carrying amount of the exchanged asset is deemed to represent the cost of the asset acquired in the exchange.

Token or non-revisable fixed amount

Natural sites and where applicable cemeteries not within the scope of Standard 17 "Heritage Assets" are measured at a token or non-revisable fixed amount.

2.1.2. Specific cases

Assets not previously recognised due to particular situations

Tangible assets inventoried but not recognised and recently inventoried tangible assets are measured at market value.

² Entities subject to corporate income tax may opt on an irrevocable basis to recognise these ancillary costs as an expense.

Tangible assets for which no directly observable market value exists are measured at replacement cost.

By convention, the entry value used is deemed to be the historical cost of the tangible asset.

In any case, the entity makes an appropriate disclosure in the notes explaining why it is impracticable to determine entry value.

Transferred tangible assets

Assets transferred to the entity are measured in its balance sheet at the carrying value in the accounts of the transferor at the transfer date, including where applicable the gross value, accumulated depreciation and any related impairment or provisions.

If the tangible asset transferred was not recognised in the accounts of the original transferor, measurement is at market value, which is deemed to be the historical cost of the asset.

Major repairs programmes

It is necessary to determine whether the repairs carried out on a tangible asset have the characteristics of reconstructions, major or routine maintenance.

- > Reconstructions are recognised as an addition to tangible assets separately from the main asset.
- > Repairs that form part of long-term major maintenance and inspection programmes which have the purpose of maintaining the main asset in operational condition. Separately identifiable expenditure relating to the main asset may be recognised either as a provision for major maintenance or as a secondary component separate from the main asset.
- > Routine maintenance is recognised as an expense when it occurs.

2.1.3. Specific elements to be considered

Dismantling and site restoration costs

The obligation may arise from legal or regulatory requirements or from the entity's published policy. The total liability for dismantling costs including transport as well as site restoration costs (including decontamination) is recognised as a provision and capitalised in the cost of the asset on initial recognition. The cost must meet the identification criteria for an asset; it must be readily identifiable, reliably measured and constitute an unconditional obligation. However, if the restoration costs do not generate future economic benefits but only settle a past liability, no asset is recognised (such as a provision for total restoration costs set up immediately when accidental pollution occurs).

Tangible asset development costs

Projects that generate capitalisable applied research and development costs are within the scope of the standard on intangible assets. In exceptional circumstances, where this expenditure contributes to the creation of a tangible asset (for example, the creation of laboratory or prototypes), it is recognised in the relevant asset account.

However, where the prototypes are for sale and relate to a single order they are recognised in inventory.

2.2. Measurement at the reporting date

2.2.1. General principle

In the case of depreciable assets, the reporting date value is the entry value after deducting accumulated depreciation and impairment.

Tangible assets transferred to the entity are measured at the reporting date on the same basis as other assets of the same class.

2.2.2. Depreciation

At the end of each reporting period depreciation expense is recognised in accordance with the depreciation schedule. For each reporting period the corresponding depreciation allocation is recognised as an expense.

The starting point for depreciation is the date when the tangible asset is available for use.

An adjustment of depreciation schedules (useful life and depreciation method) may be considered following a substantial change in the use or nature of the asset, or on impairment.

2.2.3. Impairment

An impairment loss occurs when the recoverable amount of an asset is substantially lower than its net carrying amount, which no longer corresponds to the expected residual economic benefits or service potential for the entity if use of the asset continues.

Impairment is recognised when a significant deterioration in the physical condition of the asset occurs, caused by exceptional circumstances (for example, terrorist attacks, flooding fire, etc.), which prevent its normal use. Impairment is also recognised where there is evidence of technical obsolescence caused by an event preventing its normal use in the short term.

Therefore, if the recoverable amount of a fixed asset is lower than its carrying amount, the latter is adjusted to the recoverable amount by the recognition of an impairment loss. Any impairment loss recognised is treated as an expense.

Recognition of impairment, whether initially or as subsequent changes to the initial amount, modifies the depreciable amount of the impaired asset for future periods as well as its depreciation schedule.

Impairment criteria and evidence of impairment, which are based on general accounting regulations, are described in the Illustrative Example.

2.2.4. Exceptions

Land (other than mineral deposits), natural sites, cemeteries and collections are measured at a non-revisable amount at the reporting date but may be subject to impairment.

3. DERECOGNITION AND MEASUREMENT ON DERECOGNITION

3.1. Derecognition

A tangible asset is derecognised when the entity no longer has control over it or when the asset is retired.

The accounting treatment depends on the nature of the transaction.

3.1.1. Disposals

Profits and losses on disposal of a tangible asset, irrespective of whether the disposal is cash-generating (sale) or not (an exchange, disposal free of charge etc.), shall be determined as the difference between the estimated net revenue on disposal and the carrying value of the asset and recognised in the surplus or deficit statement.

3.1.2. Transferred assets

When the transfer of an asset to another public entity does not result in a loss of ownership of the asset but a loss of control, the disposal is recognised through equity and has no effect on surplus or deficit.

3.1.3. Scrapping

Items which are no longer part of the entity's net assets, because they no longer exist or have been destroyed, are retired from fixed assets.

The scrapping of assets is recognised in surplus or deficit.

3.2. Assets that continue to be recognised although no longer in use

These assets are held with a view to subsequent disposal or scrapping. They continue to be recognised at their carrying amount at the time they ceased to be used. Where applicable, impairment is recognised.

Where an asset ceases to be used because it is no longer compliant with new standards, the carrying amount is depreciated over the residual useful life of the asset up until the deadline for application of the new standard. The depreciation schedule shall be modified accordingly.

4. DISCLOSURES IN THE NOTES

4.1. General disclosures

The notes shall contain the following general disclosures:

- > measurement bases on initial recognition and at the reporting date by class of fixed asset, as well as for assets transferred to the entity, jointly controlled assets and assets not previously recognised due to particular situations;
- > measurement conventions used to determine the gross carrying amount;

- > depreciation methods used;
- > depreciable lives and depreciation rates.

The following additional disclosures are made where applicable to the entity:

- > a description of jointly controlled tangible assets and the main terms of the joint arrangement. The cost of the tangible assets split between the portion funded by the entity and the portion funded by other entities;
- > measurement bases on initial recognition and at the reporting date assets for assets not previously recognised due to particular situations;
- > the basis for estimating the cost of site restoration;
- > the nature and effects of changes in accounting estimates having a significant impact on the current period or subsequent periods with regard to residual values, estimated dismantling, removal and site restoration costs, useful lives and depreciation methods;
- > the amount of expenditure capitalised for work in progress;
- > the carrying value of temporarily idle tangible assets;
- > the gross carrying amount of fully depreciated assets still in use;
- > the gross carrying amount, depreciation and impairment, if any, of retired tangible assets awaiting derecognition;
- > the amount of transferred fixed assets and the accounting treatment adopted.

4.2. Table of tangible assets by class

The notes shall contain tables setting out the changes in gross and net values of each asset class: acquisitions³, disposals, transfers, revaluations, impairment losses, depreciation and similar events, etc.

³ Including jointly controlled tangible assets.



STANDARD 6 TANGIBLE ASSETS

Illustrative example

IMPAIRMENT OF TANGIBLE ASSETS

Impairment criteria

An entity shall assess at the end of each reporting whether there is any indication an asset with a known or determinable acquisition cost is impaired.

When there is evidence of impairment, an impairment test needs to be conducted. The net carrying amount of the asset shall be compared to its recoverable amount:

- > if the recoverable amount is greater than the carrying amount, no impairment loss shall be recognised;
- > if the recoverable amount is less than the carrying amount, the impairment loss shall be equal to the difference between the carrying amount and recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and the value in use. Value in use shall be used when the fair value cannot be determined. Comparison with either one of the two amounts is adequate: if either amount is greater than the carrying amount, no impairment loss shall be recognised.

The same rules used to recognise the first impairment loss on an asset must also be applied at each reporting date.

Indications of impairment

In assessing whether there is any indication that an asset may be impaired, the following shall be the minimum evidence to be considered:

- > External evidence:
 - during the period, an asset's value has declined more than would be expected as a result of the passage of time or normal use;
 - significant changes in the technical, economic and legal environment with an adverse effect on the use of the asset have occurred during the period or are likely to occur in the near future.
- > Internal evidence:
 - evidence is available of obsolescence or tangible damage to an asset that was not foreseen in the depreciation schedule;
 - major changes in the extent to which, or manner in which, an asset is used, or expected to be used, have occurred during the period or are likely to occur in the

near future. These changes include plans to discontinue or restructure activities or plans to dispose of an asset sooner than previously intended;

- evidence from an internal reporting system shows that the economic benefits or service potential of an asset is or will be lower than expected.

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STANDARD 7 FINANCIAL ASSETS

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STANDARD 7 FINANCIAL ASSETS

Introduction

Financial assets within the scope of this Standard include equity investments, receivables from equity interests, and other financial assets.

I. DEFINITIONS AND RECOGNITION

Equity investments are interests in other entities that entitle the investor to exercise significant influence or control over the investee. The notion of interests is broader than that of share or capital holdings. Indeed, in the public sector certain entities have no capital. In these circumstances, interests do not necessarily take the form of shares.

The definition of an equity investment is based on a long term relationship. This relationship between two entities is generally formalised by a binding arrangement, articles of association or bylaws that enable one entity to exercise significant influence or control over the other.

Receivables from equity interests are loans made by the investor to the investee entity.

Other financial assets are other investments held on a long term basis or which the entity is unable to sell in the short term. These investments do not enable the entity to exercise influence over the issuer. Financial assets include deposits and guarantee deposits.

A financial asset is recognised when the rights attached to the investment are transferred to the entity. This is usually the date on which payment is made to the issuer or seller of the asset.

II. MEASUREMENT ON INITIAL RECOGNITION AND AT THE REPORTING DATE

II.1. Equity investments

II.1.1. Measurement on initial recognition

The measurement basis on initial recognition depends on the mode of acquisition of the investment: acquisition for purchase consideration, free of charge, as part of an exchange or a contribution in-kind.

Equity investments acquired for purchase consideration are measured at cost (acquisition cost in the case of purchased investments or issue price in the case of new shares issued or subscribed to in a capital increase). Cost includes the purchase price and costs directly attributable to the transaction. Transaction costs may be recognised as an expense.

Equity investments acquired as a contribution in-kind are measured at the amount specified in the contribution agreement. This wording which is consistent with the French General Chart of

Accounts makes no assumption about the measurement basis used in the contribution agreement.

Equity investments acquired free of charge or in an asset exchange transaction are generally measured at market value. As an exception, securities acquired in an exchange without commercial substance are recognised at the carrying value of the securities given up in the exchange, in accordance with the requirements of the French General Chart of Accounts. For example, in the merger of two of the entity's wholly-owned subsidiaries, the absorbed subsidiary's shares are exchanged for shares of the absorbing subsidiary. As the resulting subsidiary has the same activities as those of the merged subsidiaries, this share exchange can be considered as lacking commercial substance.

II.1.2. Measurement at the reporting date

Measurement of equity investments at the reporting date is based on their value in use, which is the amount the entity would be willing to pay to acquire these investments if it had to do so.

An impairment loss is recognised when their value in use is lower than their carrying value.

This Standard defines allocation requirements for impairment where the entity holds both an equity investment and a receivable from the investee. The impairment loss is first allocated to the equity investment until the latter is fully impaired and then on the same basis to the receivable. Where impairment losses exceed the carrying value of the assets, a provision for risks is recognised provided the conditions for recognising a liability are met.

In the case of joint arrangements, such as economic interest and public interest groupings ("EIG" and "PIG"), the recognition criteria for a liability are generally met because each party to these arrangements is jointly and severally liable without limit for the grouping's debts.

II.2. Receivables from equity interests

The general recognition and measurement principles prescribed by the Standard are similar to those of business entities.

II.3. Other financial assets

II.3.1. Measurement on initial recognition

On initial recognition, the entity measures other financial assets as follows:

- > Securities are measured using the same principles as for equity investments based on the mode of acquisition;
- > Receivables, loans, deposits and guarantee deposits paid or acquired are measured at cost, including purchase price and any directly attributable costs.

The cost basis for measuring loans and receivables is appropriate both in the more usual situations where the entity makes a payment to the debtor and in certain situations where the entity acquires loans and receivables.

II.3.2. Measurement at the reporting date

This Standard applies the requirements of the French General Chart of Accounts for reporting date measurement: listed securities are measured at average market price for the last month of

the accounting period whilst unlisted securities are measured at their estimated market price. Measurement of other financial assets at the reporting date may give rise to unrealised gains and losses as compared to their carrying value. Unrealised losses are recognised as impairment losses which are not offset against unrealised gains.

III. MEASUREMENT ON DERECOGNITION

This Standard requires the gross carrying value of equity investments, receivables from equity interests and other financial assets to be derecognised on disposal. Any impairment is reversed through surplus or deficit.

On partial disposal of a holding of securities with the same characteristics, the entry value of the retained portion is measured either at the weighted average purchase cost or on a first-in, first-out basis. These accounting requirements do not affect the way gains or losses are presented in the surplus or deficit statement. The latter may either be broken down into their different components (sales proceeds, gross carrying value, and reversal of impairment) or presented as a net amount. The method of presentation is disclosed accordingly.

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1. Position of the Standard as compared to Central Government Accounting Standards

Central Government Accounting Standard 7 “Financial Assets” makes a basic distinction between entities controlled and not controlled by Central Government. This distinction lays down the foundations for a future combination of Central Government accounts with those of the entities it controls and provides the presentation structure for the Central Government Accounting Standard. It also has consequences on measurement at the reporting date which is on an equity basis for controlled entities.

Neither the structure of the Central Government Standard nor the measurement basis for controlled entities has been adopted for entities. Consolidation rules applicable to state-controlled entities do not require the distinction between investments in controlled and non-controlled entities to be made in the entity’s statutory accounts. Moreover, the equity method is not considered appropriate for entities. In the French General Chart of accounts¹ the equity method is applied by exception to business entities, and is not generally used.

On the other hand, the definitions applicable to financial assets are based on Central Government Accounting Standards. In particular, the Standard adopts the notion of long-term relationship between the entity and its equity investments.

This Standard also adopts the same initial recognition and subsequent measurement principles as Central Government for non-controlled entities. Under the latter, the entry value of equity investments is compared to their value in use, which is the amount the entity would be willing to pay to acquire these investments if it had to do so.

¹ Article 221-4 of regulation 2014-03 of 5 June 2014 of the French Accounting Standards Setter (ANC) on the French General Chart of Accounts.

The distinction in Central Government Accounting Standard 7 “Financial Assets” between loans and advances which is based on their duration but which does not affect their accounting treatment has not been adopted as it is not considered relevant to entities.

IV.2. Position of the Standard as compared to the French General Chart of Accounts

This Standard is consistent with the French General Chart of Accounts. The requirements for measurement on initial recognition based on the mode of acquisition are consistent with the general accounting provisions of the French General Chart of Accounts. The notion of cost including acquisition cost and directly attributable costs has been adopted and applied to all classes of financial assets.

The general accounting provisions of the French General Chart of Accounts for the reporting date measurement of equity investments at value in use have also been adopted. Where applicable, the specific requirements for listed securities have been adopted for other financial assets.

Lastly, the general accounting provisions on impairment are also applicable.

IV.3. Position of the Standard as compared to international accounting standards

There is no IFRS that deals specifically with financial assets. According to the characteristics of this class of asset, the accounting requirements are set out in the standards dealing with financial instruments IFRS 7 “Financial Instruments: Disclosures”, IAS 32 “Financial Instruments: Presentation”, IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 31 “Interests in Joint Ventures”, IAS 28 “Investments in Associates”, and IAS 27 “Consolidated and Separate Financial Statements”.



STANDARD 7 FINANCIAL ASSETS

Requirements

1. DEFINITIONS

This Standard applies to the entity's financial assets. Financial assets within the scope of this Standard include equity investments, whether or not in the form of securities, receivables from equity interests, and other financial assets.

1.1. Equity investments and receivables from equity interests

1.1.1. Equity investments

The entity's equity investments are the interests that the entity holds in other entities, which may or may not be represented by equity instruments and which create long-term relationships with the other entities.

The long-term holding of interests enables the investor to exercise influence or control over the investee and may take the form of shares or voting rights, etc.

Voting rights may be evidenced by a contractual agreement where the investee has no capital or by articles of association or bylaws.

- > By acquisition of a controlling interest, the investor sets out to exercise control over the management of the investee through representatives in the decision-making body (managers or board members).
- > By acquisition of a non-controlling interest, the investor sets out to create a long-term relationship with the investee in order to obtain different benefits usually of an economic nature, such as privileged business relations.

1.1.2. Receivables from equity interests

Receivables from equity interests are loans made by the investor to the investee entity.

Receivables from equity interests also include convertible loans.

From a financial point of view, the latter represent permanent funding for the borrower. These loans are intended to be converted into capital where the borrower has a capital. Where the borrower has no capital these loans constitute an interest in the borrowing entity (loans to a public interest grouping (PIG) with no maturity date are convertible loans).

1.2. Other financial assets

Other financial assets include other securities, loans, deposits and guarantee deposits made.

- > Other securities are securities other than equity investments, consisting of capital shares (shares and similar interests...), portfolio investments¹ and debt instruments (bonds, bills) which the entity intends to keep or cannot sell in the short-term. They do not entitle the holder to exercise influence or control over the issuer.
- > Loans with a fixed maturity date granted to third parties under contractual arrangements.
- > Deposits and guarantee deposits are amounts paid to guarantee a transaction which are unavailable over its duration (rental deposits, for example).

2. RECOGNITION

A financial asset is recognised when the rights attached to the investment are transferred to the entity.

Equity investments acquired on creation of the issuing company or as part of a capital increase include the unpaid portion of the securities.

3. MEASUREMENT

3.1. Equity investments

3.1.1. Measurement on initial recognition

On initial recognition, each category of equity investments is measured as follows.

3.1.1.1. Equity investments acquired for purchase consideration

Equity investments acquired for purchase consideration are measured at cost including the purchase price and costs directly attributable to the transaction². Transfer taxes, fees, commissions, and legal costs are included in the acquisition cost of the investment. Borrowing costs are however excluded from the acquisition cost.

The cost of equity investments acquired as a contribution in kind is deemed to be the value in the contribution agreement plus any directly attributable costs.

3.1.1.2. Equity investments acquired free of charge or in an asset exchange

Equity investments acquired free of charge are measured at market value.

Equity investments acquired in an exchange are measured at market value except where the exchange is without commercial substance. In the latter case, they are recognised at the carrying value of the asset given up in the exchange.

¹ Portfolio investment activity, defined by National Accounting Council (CNC) Opinion n° 30 of the 13 February 1987 as “investing all or part of an entity’s assets in a securities portfolio with a view to achieving a satisfactory return on investment over a relatively long period without taking part in the management of the investee enterprises”.

² Entities subject to corporate income tax may opt on an irrevocable basis to recognise these ancillary costs as an expense.

3.1.2. Measurement at the reporting date

Measurement of equity investments at the reporting date is based on their value in use, which is the amount the entity would be willing to pay to acquire these investments if it had to do so.

Evaluation may be based on objective criteria (equity, profitability), forecasts (profitability prospects, economic outlook), or even on subjective elements (usefulness for the entity that holds the investment), as long as the information is not distorted by accidental circumstances.

At the reporting date, value in use is compared to entry value. Unrealised gains arising from the comparison are not recognised. Unrealised losses are recognised as impairment losses which are not offset against unrealised gains.

Where the entity holds both an equity investment and a receivable from the investee, any impairment loss is first allocated to the equity investment until the latter is fully impaired and then on the same basis to the receivable. Where impairment losses exceed the carrying value of the assets, a provision for risks is recognised provided the conditions for recognising a liability are met.

3.1.3. Measurement on derecognition

The gross carrying value of equity investments is derecognised on disposal. Any impairment is reversed through surplus or deficit.

3.2. Receivables from equity interests

3.2.1. Measurement on initial recognition

Receivables from equity interests are recognised at cost including the purchase price and all directly attributable costs.

3.2.2. Measurement at the reporting date

At the reporting date an estimation is made of the recoverable amount of receivables from equity interests.

An impairment loss is recognised when the expected recoverable amount of the receivable is less than its carrying value. The expected loss is not considered irreversible.

3.2.3. Measurement on derecognition

On extinguishment, the receivable is derecognised at gross carrying value and the related provision for impairment reversed through surplus or deficit.

3.3. Other financial assets

3.3.1. Measurement on initial recognition

On initial recognition, other financial assets are measured as follows.

- > Securities other than equity investments acquired for purchase consideration are measured at cost including the purchase price and any directly attributable costs.

- > Securities other than equity investments acquired free of charge are measured at market value.
- > Securities other than equity investments acquired in an asset exchange are measured at market value, except for securities acquired in an exchange without commercial substance which are recognised at the carrying value of the assets given up in the exchange.
- > Securities acquired through a contribution in kind are measured at the value specified in the contribution agreement.
- > Loans are measured at cost including purchase price and any directly attributable costs.
- > Deposits and guarantee deposits are measured at the amount paid.

3.3.2. Measurement at the reporting date

At the reporting date, each class of financial assets is measured as follows.

3.3.2.1. Other securities

At the reporting date, the following measurement requirements apply to other securities with the exception of investment portfolio securities:

- > Listed securities are measured at average market price for the last month of the accounting period,
- > Unlisted securities are measured at their estimated market price.

The above reporting date value is compared to entry value. Unrealised gains arising from the comparison are not recognised. Unrealised losses are recognised as impairment losses which are not offset against unrealised gains.

Where there is an exceptional and temporary fall in the market value of certain other listed securities at the reporting date, the entity is not required to recognise an impairment loss thereon provided the latter is offset by unrealised gains on other securities of the same class. This is a departure from the general principle of measurement on an item by item basis.

Investment portfolio securities

Except on initial recognition, portfolio securities are measured by line of investment (and not in total) by reference to their market value and the general prospects of each investee at the reporting date.

The inventory value at the reporting date is compared to entry value. Unrealised gains arising from the comparison are not recognised. Unrealised losses are recognised as impairment losses which are not offset against unrealised gains.

3.3.2.2. Loans, deposits and guarantee deposits

Loans, deposits and guarantee deposits are measured by reference to their recoverable amount at the reporting date.

Impairment is recognised when the recoverable amount of loans, deposits and guarantee deposits is substantially lower than their net carrying amount. The expected loss is not considered irreversible.

3.3.3. Measurement on derecognition

The gross carrying value of other financial assets is derecognised on disposal. Any impairment is reversed through surplus or deficit.

4. PRESENTATION AND DISCLOSURES

4.1. Presentation

Accrued interest revenue is presented together with the loan or receivable to which it relates.

4.2. Disclosures

4.2.1. Accounting policies

The following accounting policies are disclosed in the notes.

- > The accounting policy adopted on initial recognition for transfer taxes, fees, commissions and legal costs.
- > The measurement bases adopted for equity investments, receivables from equity interests and other financial assets and the methods for calculating impairment.
- > The departure from general measurement principles where there is an exceptional and temporary fall in the market value of certain securities.
- > Measurement methods adopted on disposal of securities (first in – first out, or weighted average cost).
- > The method adopted for presenting gains and losses on disposal in the surplus or deficit statement.

4.2.2. Quantitative information

The following information is disclosed in the notes.

- > A table presenting the gross value of acquisitions, disposals and repayments for the period.
- > A table presenting changes in the amount of impairment including provision for impairment loss and reversals made for the period.
- > If material, an explanation of gains or losses on disposal of financial assets.
- > Information on subsidiaries and equity investments including their equity and surplus or deficit for the most recent accounting period.
- > The estimated value of investment portfolio securities, on the basis of the measurement principles adopted, and an explanation of the total variation in the portfolio between the beginning and the end of the period.

- > A statement of the maturity dates of loans and receivables distinguishing between maturity dates earlier or later than one year after the reporting date.
- > Commitments in respect of loans granted.

STANDARD 8 INVENTORIES

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STANDARD 8 INVENTORIES

Introduction

The Standard defines the accounting requirements for inventories. It sets out the relevant definitions, recognition criteria, and measurement bases applicable on initial recognition and on the reporting date.

I. DEFINITION

I.1. Definition

Inventories are assets.

They include finished goods or work in progress produced by the entity as well as raw materials and supplies acquired for consumption in the production process of goods and services or for use in the course of its operations. Inventories not used for internal purposes are held for ultimate sale or distribution at no charge or for a nominal charge.

Inventories also include individual items of work in progress of services of a commercial nature (for example studies and engineering work). This work in progress relates to services for sale at normal market conditions either on an individual basis or as part of other works or services of a commercial nature.

The entity's inventories may include¹:

- > consumable stores;
- > servicing equipment;
- > spare parts for tangible assets other than those dealt with in Standard 6 "Tangible Assets"²;
- > finished goods or work in progress;
- > work in progress of individual services of a commercial nature (for example: a study for sale to a sponsor or engineering work carried out for a third party);
- > inventories held by third parties which are under the entity's control;
- > land and property held for sale.

I.2. Distinction between inventories and tangible assets

The two following criteria differentiate inventories from tangible assets.

¹ This non-exhaustive list, is not intended to be used for defining asset classification for the purposes of presenting the balance sheet or the notes in accordance with § 4.2 of the requirements of this Standard below.

² See paragraph I.3.4. Spares and safety stocks, of Standard 6 "Tangible Assets".

> Useful life

A tangible asset is an asset held for long-term use in the entity's operations. Conversely, inventory is consumed on first use or over a short period.

> Purpose

A tangible asset is an asset held by the entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, while inventories are:

- either held for sale, or distribution at no charge or for a nominal charge in the normal course of the entity's operations,
- or for consumption in the process of production of goods or services.

Work in progress of services is held for sale at normal market conditions.

Spare parts

Spare parts and servicing equipment are usually recognised as inventory. However, the following are recognised as tangible assets:

- > specific items that can only be used for one tangible asset (spare parts and servicing equipment);
- > the main spare parts and safety stocks which the entity expects to use over a period of more than 12 months.

I.3. Materiality thresholds

In order to make the distinction between inventories and expense, which is often slender, the entity may determine materiality thresholds per item³, for example, by class of item or type of production process of goods or services, or type of operating activity.

These thresholds are designed to provide a practical link between the entity's accounting and inventory management systems that suits the purposes of inventory managers.

II. RECOGNITION

The recognition of inventories is an accounting technique that enables business entities to match revenue and the related expenditure in the same accounting period.

This technique is also applicable in the public sector to goods and services for sale at normal market conditions. According to this technique, the carrying value of products, materials and supplies is recognised as an expense when an item of inventory is sold (or consumed in the production process of goods or services). Similarly, the cost of individual items of work in progress of services of a commercial nature is recognised as an expense when the service is performed.

However, one of the characteristics of the public sector is the distribution of goods and services to users at no charge or at a price totally unrelated to the actual cost of these goods and services.

³ The thresholds are only applicable to items on an individual basis.

In this non-market environment, inventory techniques are useful for the physical monitoring of products, materials and supplies. However, the matching of revenue and expenditure is not applicable. It is therefore necessary to define specific rules applicable to the recognition and measurement of these inventories, as well as the timing of the recognition of expense incurred for their distribution, use or exchange.

- > Products, materials and supplies used, exchanged or distributed at no charge or for a nominal charge are recognised as inventories according to the requirements of this Standard. Their cost is recognised as an expense when these goods are used, exchanged or distributed. Inventories are carried at acquisition cost although they do not generate revenue except of a nominal amount. However, where inventories are damaged or become obsolete, impairment is recognised to reflect the loss of service potential for the entity.
- > The production cost of services provided at no charge or for a nominal charge comprises mainly labour and related costs incurred to provide the service. By definition, there is no requirement to match these costs with expected revenue. Therefore, expenses related to the production of non-commercial services are not work in progress. They are recognised as expense in the accounting period in which they are incurred.

III. MEASUREMENT

III.1. Measurement principles

Inventories are initially recognised at acquisition cost, production cost or at market value. This Standard provides a basis for the measurement of inventories. In particular, a distinction is made between interchangeable and non-interchangeable items.

Goods and work in progress of goods and services for sale in normal market conditions are measured at the lower of acquisition cost and inventory value⁴. Inventory value is the higher of market value and value in use. These terms are defined in this Standard.

Inventories of goods intended to be used, exchanged or distributed at no charge or a nominal charge are carried at acquisition cost, subject to any damage or obsolescence of all or part of the inventory.

III.2. The components of the cost of inventories

On initial recognition, inventories are measured at acquisition cost, production cost or, failing that, at market value.

In general, the cost of inventories includes their initial value⁵, conversion and other costs.

In the case of individual services of a commercial nature, inventories include the cost of services for which no revenue has been recognised, comprising mainly labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. Selling and general administrative salaries and related costs, and more

⁴ Inventory value is a concept similar to current value used in the General Chart of Accounts (PCG).

⁵ i.e. acquisition cost, production cost or market value.

generally administrative overheads and sales costs are not included in the cost of inventories but are recognised as expense of the period in which they are incurred.

Other costs are included in the cost of inventories only to the extent they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-administrative overheads in addition to production costs, or the costs of designing products for specific recipients.

Costs excluded from the cost of inventories and recognised as an expense in the period in which they are incurred are:

- > abnormal amounts of wasted materials, labour or other production costs;
- > storage costs, unless those costs are necessary in the production process before a further production stage.

As a general rule, entities are not authorised to borrow. Nevertheless, those that are authorised to borrow to finance their operations may include borrowing costs⁶ in the cost of inventories. Where an entity elects to capitalise borrowing costs⁷, the election applies to all qualifying assets⁸, that is to fixed assets (intangible and tangible assets acquired or produced) and to inventories.

III.3. Cost formulas for interchangeable inventory items

The Standard permits the use of different formulas for determining the cost of interchangeable inventory items.

III.4. Impairment of inventories

General impairment rules apply to inventories.

However, impairment of inventories used, exchanged or distributed at no charge or for a nominal charge is only recognised when the latter are damaged or become obsolete, to reflect the loss of service potential for the entity.

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1. Position of the Standard as compared to Central Government Accounting Standards

The requirements of this standard are similar to those of Central Government Accounting Standard 8 “Inventories”.

Nevertheless, certain Central Government inventories reflect its sovereign functions and therefore give rise to specific accounting requirements.

⁶ And similar financial expense.

⁷ Entities subject to corporate income tax may opt on an irrevocable basis to recognise these ancillary costs as an expense.

⁸ French General Chart of Accounts art. 213-9 “A qualifying asset is an asset that requires a substantial period of preparation or construction to get ready for its intended use or sale”.

In addition, those entities that are authorised to borrow to finance their operations may include borrowing costs⁹ in the cost of inventories. This option is not available under Central Government Accounting Standards.

IV.2. Position compared to the French General Chart of Accounts

This Standard adopts the main general accounting requirements.

However, this Standard defines requirements for the reporting date measurement of goods used, exchanged or distributed at no charge or a nominal charge for which there are no specific provisions in the General Chart of Accounts. These inventories are carried at acquisition cost and not at the lower of cost and net realisable value. Impairment is only recognised when all or part of the inventories are damaged or become obsolete.

IV.3. Position of the Standard as compared to international accounting standards

This Standard is consistent with the main requirements of IPSAS 12 Inventories, which is itself based on IAS 2 Inventories.

Like IPSAS 12, this Standard deals with inventories of goods distributed at no charge or a nominal charge which are a specific feature of the public sector.

This Standard also provides guidance on work in progress of services to be distributed at no charge or for a nominal charge and stipulates that the related costs are recognised as expense in the accounting period in which they are incurred. It differs in this respect from IPSAS 12 which stipulates that “the inventories referred to in paragraph 2(d) (*i.e. Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients*) ... are excluded from the scope of this Standard because they involve specific public sector issues that require further consideration”.

⁹ And similar financial expense.



STANDARD 8 INVENTORIES

Requirements

1. DEFINITION

Inventory is an asset.

Inventories include goods acquired, produced or held by the entity:

- > for sale or distribution at no charge or for a nominal charge in the normal course of its operations (including goods, land or property held for sale) or for use in its activities,
- > or materials or supplies for consumption in the process of production of goods or services.

Inventories also include individual items of work in progress of services of a commercial nature for sale at normal market conditions.

2. RECOGNITION

An element is recognised as inventory provided it meets both of the following conditions:

- > It is controlled by the entity;
- > Its cost or value can be measured with sufficient reliability.

Control generally takes a specific legal form (ownership or right of use, etc.) and is characterised by the ability to govern the conditions of use of the asset, on the one hand, and the ability to govern the service potential and/or future economic benefits derived from using the asset, on the other.

The fact that the entity bears the risks and expenses associated with holding the asset also constitutes a presumption of control.

Recognition of an element of inventory takes place on the date control is transferred, which is usually the date of the transfer of the risks and rewards associated with holding the asset.

3. MEASUREMENT

3.1 Measurement on initial recognition

On initial recognition in the entity's balance sheet, inventories are measured at acquisition cost, production cost, or failing that, at market value.

The cost of inventories includes the initial value of inventories¹, conversion and other costs incurred in bringing the inventories to their present location and condition.

¹ i.e. acquisition or production cost or market value, whichever is applicable.

Those entities that are authorised to borrow to finance their operations may include borrowing costs² in the cost of inventories. Borrowing costs that are directly attributable to the acquisition of inventories may be capitalised up until completion of those assets which require a substantial design and construction period in order to make them suitable for use or sale.

Abnormal losses and wastage are excluded.

3.1.1. Acquisition costs of inventories acquired for purchase consideration

Acquisition costs of inventories are made up of:

- > the purchase price, including non-recoverable import duties and other taxes, after deducting trade discounts, rebates, payment discounts and similar items;
- > transport, handling and other costs directly attributable to the acquisition of finished goods, raw materials and services.

Administrative overheads are excluded from acquisition cost with the exception of direct overhead costs.

3.1.2. Production costs of inventories and work in progress produced by the entity

Production costs of inventories and work in progress include:

- > costs directly related to the units of production, such as direct labour;
- > a systematic allocation of fixed and variable production overheads incurred in converting materials into finished goods.

Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as:

- > depreciation and maintenance of factory buildings and equipment including, where applicable, the depreciation of dismantling, site clearance and restoration costs;
- > a share of the depreciation of intangible assets such as development costs and software.

Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

Administrative overheads are excluded from production costs with the exception of direct overhead costs.

For specific activities and as a matter of convenience, the entity may decide to use two alternative techniques for the measurement of the cost of inventories, if the results approximate cost: either standard cost or the retail method.

- > Measurement at standard cost

Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

² And similar financial expense.

> Measurement at retail price

The cost is determined by reducing the sales value of the inventory by the appropriate percentage gross margin and selling costs. The percentage used takes into consideration inventory that has been marked down below its original selling price. An average percentage for each category of articles may be used.

Selling costs are costs directly attributable to the sale (such as sales commission).

3.1.3 Market value of inventories acquired free of charge or in an exchange

Inventories acquired free of charge or in an exchange are recognised at market value.

3.2 Cost formulas applicable to items of inventory

These formulas enable the cost of disposals and of the remaining inventory to be determined where items of inventory are used, sold or exchanged. For this purpose, cost is determined differently according to whether the items of inventory are interchangeable (non-identifiable) or non-interchangeable (identifiable).

3.2.1. Non-interchangeable items

Non-interchangeable (or identifiable) items are articles or individual classes of items which are not fungible. They also include physically identified items segregated for specific projects. The actual cost is determined for each individual article or class.

3.2.2. Interchangeable items

Interchangeable (or fungible) items are those items within each class that cannot be individually identified after entering the stores.

The cost of interchangeable items is determined by using the weighted average cost or first-in, first-out formulas.

The formula must be applied consistently. Consequently, the same formula is applied to inventories having the same nature and use to the entity.

3.3 Measurement at the reporting date

3.3.1. Goods and work in progress of goods and services for sale at normal market conditions

On the reporting date, goods and work in progress of goods and services for sale at normal market conditions are measured at the lower of acquisition cost and inventory value³.

³ Inventory value is a concept similar to current value used in the General Chart of Accounts (PCG).

Inventory value is the higher⁴ of market value and value in use.

Inventories, including work in progress, are measured on a unit by unit basis or by class of item, where the inventory unit is the smallest part that can be inventoried for each article.

Where inventory value is lower than acquisition cost, impairment is recognised as an expense of the period, in accordance with normal impairment rules for assets.

If it appears during the period that the impairment provision is no longer required it is reversed through surplus or deficit.

3.3.2. Goods for distribution at no charge or a nominal charge

Goods for distribution at no charge or a nominal charge or for use in the course of the entity's operations are carried at acquisition cost. An impairment loss is recognised for damaged or obsolete inventories.

3.3.3. Inventories for which a binding sale agreement exists

When a binding sale agreement exists for goods or work in progress but performance of the contract will take place at a later date, the inventories are measured at acquisition cost on the reporting date provided the agreed selling price covers the latter and outstanding costs to complete the sale.

The same applies to purchases used for the production of goods for which a binding sale agreement exists, provided these purchases are individually identified and the agreed selling price fully covers the cost of purchase, conversion and outstanding costs to complete the performance of the contract.

3.3.4. Difficulties in determining acquisition or production cost

In circumstances that must remain exceptional, it may not be possible to determine acquisition or production cost. In these circumstances, inventories are measured by reference to the acquisition or production costs of similar assets, observed or estimated at a date as close as possible to the actual acquisition or production date of the said assets. If this approach proves impracticable, the inventories are measured at market value on the reporting date.

If these methods entail an undue administrative burden for the entity, the inventories are measured using the retail method.

3.4. Recognition of inventory change

The balance of the inventory change accounts represents the total change in value⁵ of inventories between the beginning and the end of the accounting period.

⁴ However, only one of these values is applicable (either market value, or value in use) according to the purpose for which the inventory is held:

- market value, if the inventory is for sale in its current condition. It is the amount which could be obtained, at the reporting date, for the sale of finished goods or merchandise in their current condition.
- value in use, if the inventory is to be used in a production process. As a general rule, it is determined on the basis of expected net cash flows, including not only the estimated selling price but also expected completion and distribution costs.

⁵ Excluding any impairment.

These accounts may have a credit or debit balance. They are presented in the surplus deficit statement as an adjustment to purchases of goods and supplies on the one hand or to the production of finished goods on the other.

4. DISCLOSURES

4.1. Accounting policies

The accounting policies adopted for inventories are disclosed in the notes, including those adopted for:

- > measurement, including the cost formulas used;
- > impairment.

4.2. Financial information

The notes mention:

- > the gross amount by class appropriate to the entity's operations;
- > the amount of impairment for the same classes.

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STANDARD 9
CURRENT
RECEIVABLES

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STANDARD 9

CURRENT RECEIVABLES

Introduction

This Standard prescribes the recognition and measurement requirements for current receivables.

I. DEFINITIONS AND SCOPE

I.1. Definitions

Current receivables, as defined in this Standard, meet the definition of an asset. An asset is a resource controlled by the entity embodying future economic benefits.

Current receivables include prepaid expenses which are assets for purchases of goods and services that will be delivered in the future. They also include accrued revenue.

I.2. Scope

Current receivables include receivables from public entities, accounts receivable and related accounts, taxpayer receivables, advances and payments on account, receivables for transactions on behalf of third parties, other receivables and prepaid expenses.

Current receivables exclude receivables within the scope of other Standards, such as receivables from equity interests and loans receivable which are classified as financial assets.

II. RECOGNITION

II.1. General principles

The recognition criteria for a current receivable comply with the general conditions for recognising an asset.

The requirements of this Standard determine the timing of recognition.

II.2. Recognition of debt discharge decisions

This Standard prescribes the accounting treatment of debt discharge decisions which depends on whether the decision affects the validity of the original debt.

The entity may take three types of decision leading to the (full or partial) discharge of debts.

Discharge decisions affecting the validity of the original debt

Full or partial discharge decisions cancelling the debt relate to situations where the amount due is incorrect, where there is disagreement over its existence or may result from the application of legal provisions.

Decisions to write off a debt

The write-off procedure may be implemented where the debtor is clearly insolvent or no longer exists. A write-off is an accounting transaction only and has no effect on the legal rights of the entity with respect to the debtor (the validity of the debt is unaffected).

Debt waivers

The entity may waive the debt in application of legal provisions that authorise it to do so. A debt waiver discharges the debtor's obligation to pay but does not cancel the validity of the original debt.

II.3. Negotiated settlements

This Standard prescribes the accounting treatment of negotiated settlements.

The negotiation of a settlement is a procedure that resolves an existing or potential dispute and involves mutual concessions by the parties concerned.

In the case of debts, the settlement is negotiated by the entity and the debtor.

II.4. Impairment

An impairment loss is recognised when the recoverable amount (inventory value) of a receivable is substantially lower than its net carrying amount.

Overdue payment, deterioration of the financial position of the debtor, or a settlement negotiation in progress are indicators of impairment of a receivable.

II.5. Derecognition

This Standard describes the circumstances in which a receivable is derecognised. Any difference between the net carrying amount of the receivable and the amount received in exchange is recognised in surplus or deficit.

III. MEASUREMENT

III.1. Measurement on initial recognition

Current receivables are initially recognised at cost. The requirements define cost for receivables that are issued or acquired by the entity.

III.2. Measurement at the reporting date

Impairment of a receivable is the difference between its net carrying amount and its inventory value.

The inventory value of a receivable is estimated on the basis of its recoverability.

This Standard defines two approaches for determining the impairment of receivables. The amount of the impairment provision is normally calculated by examining each receivable individually. Statistical estimates may however be used in cases where there are too many receivables in a category to be examined individually.

In fact, the inventory value of receivables is usually based on age analysis.

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1. Position of the Standard as compared to Central Government Accounting Standards

The Central Government's receivables consist mainly of amounts due by taxpayers or receivables arising as a result of the Central Government's role as a social and economic regulator. Although an entity's receivables are of a different nature, the recognition and measurement requirements are the same as for Central Government.

IV.2. Position compared to the French General Chart of Accounts

The recognition and measurement requirements for current receivables comply with the principles of the French General Chart of Accounts.

IV.3. Position of the Standard as compared to international accounting standards

IAS 39 "Financial Instruments: Recognition and Measurement" identifies four categories of financial assets, including the category loans and receivables which comprises current receivables.

IAS 39 requires an entity to measure receivables on initial recognition at fair value plus directly attributable transaction costs. In the case of current receivables this is usually equal to cost as defined in this Standard.

In addition, IAS 39 requires an entity to measure receivables on the reporting date at amortised cost using the effective interest method. This measurement basis has very little impact on current receivables and is not therefore adopted for this Standard.

The impairment requirements of this Standard in respect of current receivables are similar to those of IAS 39.

The requirements of IPSAS 29 are similar to those of IAS 39.



STANDARD 9

CURRENT RECEIVABLES

Requirements

1. DEFINITIONS AND SCOPE

1.1. Definitions

Current receivables represent an entity's entitlement to require its debtors to fulfil an obligation (to provide something, a sum of money, or a service) at an agreed date. They are not of a capital nature.

Prepaid expenses are assets for goods or services which will be delivered at a later date.

1.2. Scope

This Standard applies to:

- > receivables from public entities, arising from transactions with Central Government, public authorities and international organisations;
- > accounts receivable and related accounts for goods and services;
- > taxpayer receivables for allocated tax revenue;
- > advances and payments on account made by the entity;
- > receivables for transactions carried out on behalf of third parties especially schemes where the entity does not act on its own account;
- > other receivables;
- > prepaid expenses.

This Standard also applies to accrued revenue.

This Standard does not apply to:

- > receivables from equity interests (See Standard 7 "Financial Assets");
- > loans receivable (See Standard 7 "Financial Assets");
- > receivables in respect of cash transactions (See Standard 10 "Cash Components");
- > margin deposits (See Standard 11 "Financial Debt and Derivative Financial Instruments").

2. RECOGNITION

2.1. General principles

The recognition criteria for a current receivable comply with the general conditions for recognising an asset, namely:

- > It is probable that the related future economic benefits will flow to the entity;
- > The receivable is identifiable;
- > Its cost or value can be measured with sufficient reliability.

A receivable is recognised when the holder is entitled to the rights it embodies. In the case of a receivable for goods or services recognition takes place when control of the goods or services is transferred to the purchaser.

Receivables recognised as an asset within the scope of this Standard give rise to:

- > revenue if the conditions for recognising revenue are met;
- > a liability or a cash outflow in the case of advances and payments on account made by the entity, where the conditions for recognising revenue are not met.

2.2. Recognition of debt discharge decisions

For accounting purposes, a distinction is made according to whether the debt discharge decision affects the validity of the original debt.

- > Discharge decisions affecting the validity of the original debt.

These decisions to reduce or write off the amount of receivables are made to correct errors due to payment discrepancies or the timing of recognition.

Where the decision is made before finalising the accounts for the period in which the receivable is recognised, the original entries are adjusted. If however the decision is made after finalising the accounts for the period in which the receivable is recognised, the adjustment is recognised as the correction of an error (see Standard 14 "Changes in Accounting Policy, Changes in Accounting Estimates and the Correction of Errors").

- > Discharge decisions not affecting the validity of the original debt.

These decisions are recognised as operating expense. They include write-offs and waivers.

2.3. Recognition of negotiated settlements

The effects of negotiated settlements are recognised in the period in which the settlement agreement is formalised.

2.4. Recognition of impairment

An impairment loss is recognised when the recoverable amount of a receivable is substantially lower than its net carrying amount. The expected loss is not considered irreversible.

Allocations to and reversals of impairment losses are treated as operating expense and revenue.

2.5. Derecognition

The receivable is derecognised when it has been settled, transferred or is statute-barred or discharged.

3. MEASUREMENT

3.1. Measurement on initial recognition

Current receivables are initially recognised at cost.

The cost of receivables issued by the entity is the amount due by the debtor.

The cost of receivables acquired by the entity is made up of the purchase price plus all directly attributable costs.

3.2. Measurement at the reporting date

The inventory value of receivables is their expected recoverable amount. The amount of the impairment provision is normally calculated by examining each receivable individually. Statistical estimates may, however, be used in cases where there are too many receivables in a category to be examined individually.

At the reporting date, prepaid expenses are measured at the amount of the undelivered goods or services.

4. DISCLOSURES IN THE NOTES

The notes explain the impairment formulas used.

A breakdown of receivables with a maturity date of up to one year and more than one year is disclosed.

Information is provided on debt discharge decisions broken down by type of decision.

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STANDARD 10

CASH COMPONENTS

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STANDARD 10 CASH COMPONENTS

Introduction

I. SCOPE

This Standard defines the assets and liabilities composing the cash position of an entity and prescribes the accounting requirements for these elements.

Entities manage their cash position within the existing legal and regulatory framework. Hence, entities within the scope of the Order of 7 November 2012 relating to public budgetary and accounting management are required under Article 47 to deposit cash on hand with the Treasury Department. Article 197 provides for an exception to Article 47 whereby, with ministerial authorisation, entities may deposit funds at the Banque de France or a credit institution.

In addition to the legal and regulatory framework applicable to these transactions, the latter are generally subject to authorisation by the entity's management board.

Revenue and expense related to items of cash, including interest, dividends and proceeds from the sale of short term investments are dealt with in Standard 4 "Revenue" and Standard 2 "Expenses".

II. DEFINITIONS

II.1. Assets

The entity's cash position includes cash on hand and short-term investments of the entity's cash surpluses.

Cash on hand includes money held by the entity and all instruments which are immediately convertible into money at par. Term deposit accounts with a maturity of no more than three months are included in the scope of the Standard.

The Standard adopts the definition of short-term investments in the Commercial Code and the Monetary and Financial Code¹.

This Standard identifies cash equivalents, which are also included in Central Government Accounting Standards. Cash equivalents are a form of short-term investment. This Standard bases their definition on IAS 7 "Statement of Cash Flows". Cash equivalents are highly liquid short-term investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. In practice, these investments have a short maturity, usually less than three months from their acquisition date. They may, for example, take the form of floating rate bonds with a maturity of less than three months, or money market mutual funds. The classification of these items as cash has no specific consequences on initial recognition or measurement requirements.

¹ Article L.228-1 of the Commercial Code and Articles L.211-1 and L.211-2 of the Monetary and Financial Code.

This Standard does not include requirements for factoring transactions with banks which are not applicable to entities.

II.2. Liabilities

Cash liabilities correspond to funds received which are repayable on demand or at very short notice and may give rise to remuneration.

II.3. Related items

Under the terms of this Standard accrued interest and remuneration relating to cash assets and liabilities are presented as cash assets and liabilities. They are presented in the balance sheet in interest accrual accounts in the same line as the items that generated them and not in separate accrual accounts.

III. RECOGNITION AND MEASUREMENT

III.1. Recognition

Cash on hand and short-term investments are recognised in the period in which they are acquired.

Cash liabilities are recognised in the period in which the obligations arise.

III.2. Measurement on initial recognition

Cash assets and liabilities are measured at acquisition cost excluding transaction costs. In the case of cash on hand, cost is equal to the face value.

Transaction costs relating to short-term investments are recognised as an expense. This is because the latter have in theory a short life and these costs do not add value to the investment to which they relate.

III.3. Measurement at the reporting date

Cash held in foreign currency at the reporting date is converted into euros using the latest spot exchange rate. Foreign exchange gains and losses shall be recognised in the surplus or deficit for the period.

A clarification of the notion of inventory value used for measuring short-term investments at the reporting date is appropriate. Inventory value is the current value, corresponding to market value (or expected sales value). Inventory value is compared to acquisition cost. This comparison gives rise to unrealised profits and losses. Unrealised profits on short term investments are not recognised. However, unrealised losses are recognised as impairment without setting them off against unrealised profits.

This Standard does not adopt the requirements of the French Chart of Accounts allowing the offsetting of unrealised losses against unrealized profits from other investments, where there is an exceptional and temporary fall in the value of a holding. This is because this option is not relevant for entities which generally have a limited portfolio of short-term investments.

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1. Position of the Standard as compared to Central Government Accounting Standards

The Standard addressing Central Government cash components deals with a specific set of transactions. It deals specifically with transactions with Treasury Correspondents, defines requirements for receivables and liabilities in respect of deposits on the interbank market and with States of the euro zone.

It therefore deals mainly with transactions not applicable to entities.

IV.2. Position compared to the French General Chart of Accounts

The recognition and measurement requirements for cash transactions in this Standard do not diverge from those of the French General Chart of Accounts, except regarding foreign currency transactions.

This Standard identifies cash equivalents which are not mentioned in the French General Chart of Accounts.

IV.3. Position compared to international accounting standards

IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IPSAS 29 “Financial Instruments: Recognition and Measurement” set out the international accounting requirements for cash components. The latter standards include a classification of financial assets and the corresponding accounting requirements. These international standards generally require cash items to be measured at fair value through surplus or deficit. This Standard does not adopt this approach.



STANDARD CASH COMPONENTS

Requirements

1. SCOPE

This Standard applies to the assets and liabilities included in the cash position of an entity as well as to items related to these assets and liabilities.

The items included the cash position of an entity must comply with the applicable legal and regulatory framework and are generally subject to authorisation by the entity's management board.

2. DEFINITIONS

2.1. Assets

The assets within the scope of this Standard include cash on hand, short-term investments and accrued interest relating to these assets.

2.1.1. Cash on hand

Cash on hand includes money held by the entity and all instruments which are immediately convertible into money at par.

It includes:

- > money held by the entity;
- > demand deposits: funds on accounts with the Treasury, on bank accounts, in euros or in foreign currency;
- > bills in the course of collection or discounted bills, presented as assets of the entity.

2.1.2. Short-term investments

Short-term investments are instruments issued by public or private corporate entities, which confer identical rights for each class of instrument and entitle the holder directly or indirectly to a share in the capital of the issuer or a general claim on the issuer's assets.

Cash equivalents are highly liquid short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.2. Liabilities

Cash liabilities correspond to funds received which are repayable on demand or at very short notice and may give rise to remuneration.

They include debts which are by nature due immediately at face value (bank overdrafts, bills payable immediately) as well as accrued interest relating to these liabilities.

Cash liabilities include debts arising from the use of credit lines. Credit lines are funding facilities granted by financial institutions generally for a short period of time to cover timing differences between payments and receipts.

2.3. Related items

Accrued interest and remuneration relating to cash assets and liabilities are presented with the items that generate them.

3. RECOGNITION AND MEASUREMENT

3.1. Recognition

3.1.1. Cash on hand

Cash on hand is recognised in the period in which it is acquired.

Items in the course of collection are recognised as follows:

- > Cheques are recognised when paid into the bank;
- > Bills of exchange are recognised when presented for payment or discounted;
- > Other payment instruments, on presentation for payment or at maturity, as applicable.

Payments made through a bank account are recognised as follows:

- > Cheques and bank transfer orders are recognised on their issue date;
- > Direct debits are recognised on the basis of the notice received from the bank.

3.1.2. Short-term investments

Short-term investments are recognised in the period in which they are acquired.

For presentation purposes, different types of investment may be presented as separate items.

3.1.3. Cash liabilities

Cash liabilities are recognised in the period in which the obligations arise.

Debts arising from the use of credit lines are recognised when the facility is used.

3.2. Measurement on initial recognition

Cash on hand denominated in euros is initially measured at face value. In the case of cash on hand, cost is equal to the face value.

Short-term investments are measured at acquisition price and the related transaction costs are recognised as an expense.

On initial recognition cash acquired in foreign currency is converted into euros using the spot exchange rate on the transaction date.

3.3. Measurement at the reporting date

Cash held in foreign currency at the reporting date is converted into euros using the latest spot exchange rate. Foreign exchange gains and losses shall be recognised in the surplus or deficit for the period.

A comparison of the inventory value of short-term investments to entry value gives rise to unrealised gains and losses. Unrealised losses are recognised as impairment losses which are not offset against unrealised gains.

Accrued interest not yet due on cash assets and liabilities is recognised at the reporting date.

4. DISCLOSURES IN THE NOTES

Information is provided on discounted bills not yet due and on the amount of authorised overdraft facilities.

The following disclosures are made for short-term investments:

- > investment policy, the legal and regulatory framework and any dispensation therefrom for cash management;
- > the nature / type of short-term investments held;
- > measurement bases applied;
- > formulas for determining impairment losses and the amount of impairment by class of investment;
- > the market value of short-term investments at the reporting date, as well as information on unrealised gains by class of investment, where applicable.



**STANDARD 11
FINANCIAL DEBT
AND DERIVATIVE
FINANCIAL
INSTRUMENTS**

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STANDARD 11

FINANCIAL DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

Introduction

I. BACKGROUND AND SCOPE

I.1. Background

This Standard presents the sources of funding used by entities in the course of their activities. The main sources of funding include loans, debt securities, financial instruments and related hedging transactions. It does not necessarily follow that entities may engage in the different financial transactions described in this Standard. The said transactions must be authorised by law and the entity's management board.

Article 12 of the Public Finance Planning Act of 28 December 2010¹ regulates new bank loans taken out by sundry central government entities ("organismes divers d'administration centrale" - ODAC) by setting a maximum maturity of twelve months. This makes it legally possible to use bank financing to cover cash requirements for a period of less than twelve months. This Standard also applies to funding arrangements concluded before that date.

I.2. Scope

Bank loans, loans and other financial debt issued in the form of debt securities, loans and advances granted by the State or by public authorities, deposits and guarantee deposits and derivative instruments held in particular for hedging purposes are within the scope of this Standard.

This Standard does not deal with cash liabilities within the scope of Standard 10 "Cash Components". It does not prescribe the accounting treatment for deposits and guarantee deposits received considering that these transactions do not require any specific guidance.

II. DEFINITIONS

This Standard defines financial debts and derivative instruments.

Although entities rarely use complex loans or derivative instruments, it is appropriate to prescribe their accounting treatment. This Standard does not include a definition of derivative instruments but is applicable to the instruments referred to in Article D211-1-A in the regulation section of the Monetary and Financial Code.

¹ Public Finance Planning Act 2010-1645 of 28 December 2010 for the years 2011 to 2014.

III. RECOGNITION AND MEASUREMENT

III.1. General principles

To qualify for recognition, financial debt must meet the general criteria for recognition of a liability.

This Standard defines the recognition criteria for financial debts and the timing of recognition. In the case of a loan, recognition takes place on the issue or contract date. In practice, when the entity issues a loan or becomes party to a loan contract, a receivable is recognised at the same time as the debt. When the funds are released the receivable is settled.

This Standard requires the transaction costs not included in the interest rate (premium or issuance costs) to be spread over the term of the loan on an actuarial basis, in order to correctly reflect the cost of financing. However the allocation may be made on a straight-line basis if the effect on surplus or deficit is not significantly different to that obtained by using an actuarial basis.

III.2. Measurement on initial recognition of simple financial debts in euros

III.2.1. Simple loan

This Standard requires a simple loan to be measured at its face value; any transaction costs are recognised as an asset and spread over the term of the loan.

III.2.2. Loan restructuring

This Standard deals with loan restructuring. In order to ensure reporting transparency and consistent accounting treatment, irrespective of how the transaction is structured, the total cost of the transaction must be identified whether this cost is paid up front, capitalised or included in the interest rate of the new loan.

The new loan is presumed to be issued at market rate.

This Standard makes a distinction between renegotiation of a loan with the same or a different lender. When the renegotiation takes place between the existing parties to the loan, the amount of compensation payable is recognised in the balance sheet of the entity and the cost spread over the residual term of the initial loan, unless the resulting interest expense is clearly not at market rate.

When the renegotiation takes place with a new counterparty, the transaction has the effect of extinguishing the original loan and replacing it by a new loan, issued by definition at market rate. In this case, the repayments in respect of the initial loan including any compensation are immediately recognised by the entity in surplus or deficit and the cost of issuing the new loan spread over the term of the new loan using the actuarial method.

III.3. Measurement at the reporting date of simple financial debts in foreign currency

A simplified approach has been adopted requiring exchange differences on foreign currency loans to be recognised in surplus or deficit at the reporting date. This is a departure from

business accounting rules, which require unrealised exchange losses to be provided for without recognising unrealised exchange gains. This is because business accounting rules are derived from the Commercial Code which prohibits the recognition of unrealised revenue.

The recognition of unrealised exchange gains or losses in surplus or deficit at the reporting date, using the recognition model for cash held in foreign currency, is not contrary to the principle of prudence included in the conceptual framework, and enables loans to be presented consistently at redemption value. Lastly it simplifies the recognition of the hedge for the foreign currency risk related to the debt.

III.4. Hedging transactions

As stipulated in the requirements of this Standard, a hedging transaction consists of associating a hedged item and a hedging instrument in order to reduce effectively the risk relating to that item. Where the hedging instrument is a derivative, the hedged transaction and the effects of the hedge are matched in surplus or deficit.

As the entities within the scope of this Standard are mostly from outside the financial sector, general accounting principles are applied to the recognition of hedging transactions.

III.5. Structured loans

Structured loans involve significant financial risks which it is difficult to estimate in advance. These risks are re-estimated periodically, and must be provided for when they materialise. For the purposes of risk evaluation, the appropriate benchmarks and measurement methods are selected by the entity or under its responsibility.

III.6. Disclosures in the notes

This Standard requires the disclosure of the types of financial instruments used by the entity (type of debt and derivative instruments, maturity...) and of the type of financial risk to which it is exposed, (interest-rate risk, foreign exchange risk, liquidity risk...), particularly where these risks are hedged.

Information on liquidity risks might include a statement of contractual cash flows presented by type of instrument (fixed rate/floating rate bank loan, debentures, derivative instruments...) and by maturity date (distinguishing maturities : less than 1 year, 2 years, 3 years, 4 years 5 years and more than 5 years).

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1. Position of the Standard as compared to Central Government Accounting Standards

Central Government Accounting Standards (RNCE) present the sources of funding used by the State to manage its long term debt. In many respects, this debt is of a different nature to that of entities which are subject to strict regulation.

The sources of funding used by the State include financial debt and derivative instruments managed by the government agency Agence France Trésor. The latter has activities closer to those of a financial institution than a commercial enterprise.

The requirements of this Standard for loans are the same as those applicable to Central Government, both in respect of simple loans or loans with a discount or premium feature. This Standard also defines the elements included in the cost of loans on initial recognition.

This Standard identifies two situations in respect of derivative financial instruments. The entity's transactions may either qualify for hedging or as open positions. In both cases the requirements for entities are consistent with those for Central Government.

IV.2 Position compared to the French General Chart of Accounts

The French General Chart of Accounts (PCG) does not include detailed requirements for financial debts and derivative instruments.

This Standard has similar requirements for loans as the PCG. However, this Standard requires transaction costs to be included in the total cost of financing, whereas an option is available under the PCG to recognise these costs immediately as an expense so they can be set off against taxable income.

This Standard requires exchange differences on debts denominated in foreign currency to be recognised directly in surplus or deficit at the reporting date. This is a departure from the PCG and the Commercial Code which require unrealised exchange gains or losses to be recognised in the balance sheet and only unrealized losses to be provided for through surplus or deficit.

IV.3 Position compared to international accounting standards

This Standard diverges from IFRS and IPSAS in that it does not require derivatives to be systematically measured at market value in the balance sheet. In the case of hedging in particular, the most important principle is the matching of the hedged transaction and the effects of the hedge in surplus or deficit. The recognition of the full value of the derivative is of limited relevance, to the extent that the hedge is not usually managed by reference to its market value and, by definition, the hedge does not expose the entity to any additional risk. In the interests of simplification, the above accounting policy is not therefore adopted in this Standard

Nevertheless, the requirement of this Standard to recognise exchange differences on loans denominated in foreign currency in surplus or deficit at the reporting date is compliant with international accounting standards.



STANDARD 11

FINANCIAL DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

Requirements

1. SCOPE

This Standard prescribes the accounting requirements for the funding transactions of an entity. These transactions must comply with the applicable legal and regulatory framework and are generally subject to authorisation by the entity's management board.

This Standard covers all funding transactions including simple products (bank loans, loans granted by the State or by public authorities or other entities and advances made to cover the entity's funding requirements), or more complex transactions such as market issues (commercial paper, bonds ...). The scope also includes foreign currency funding and structured loans as well as derivative instruments used for hedging transactions

The scope does, however, exclude financial liabilities arising from finance leases and contracts for the provision of public services.

The following instruments are included in the scope of this Standard:

- > loans granted by financial institutions,
- > loans and other financial debt instruments issued in the form of securities,
- > loans and advances granted by the State or by public authorities,
- > deposits and guarantee deposits received,
- > derivative instruments used for hedging transactions.

This Standard applies to short, medium and long term financial liabilities. It does not apply to cash liabilities.

2. DEFINITIONS

2.1. Financial debts

A debt is an obligation to deliver cash or another asset to another entity.

Financial debts correspond to:

- > the funding resources of the entity that are interest-bearing and repayable on maturity;
- > the funding of an asset.

Financial debts include funds paid over to the entity as part of a contractual arrangement under which the lender promises to provide the borrower with a payment facility for a certain period of time.

2.1.1 Loans granted by financial institutions

Loans granted by financial institutions may bear interest at a fixed or a floating rate and be denominated in euros or another currency.

Loans are considered to be simple when they bear interest close to market rates on issue for fixed rate loans and over the term of the loan for floating rate loans. In these situations, the entity is exposed to an opportunity cost. For example, fixed rate loans expose the borrower to an opportunity cost where interest rates go down; conversely a floating rate product exposes the borrower to an opportunity cost if interest rates go up.

Loans are considered to be complex if they are structured, in other words if they have a reference rate which offers an opportunity to pay less than the market rate and in return for which there is a risk the interest rate paid will be above market rate.

This distinction is important because the accounts must reflect the risk that, under the terms of a financial package, interest payable may be higher than if the entity had taken out a simple fixed or floating rate loan at the outset.

2.1.2 Loans and advances granted by the State or by public authorities,

Loans and advances enable the entity to cover cash requirements arising in the pursuit of public policy or in taking urgent measures. They also have the purpose of replacing bank funding by resources bearing interest at the State's average borrowing rate.

Advances have a determined maturity date. They are granted subject to the following conditions:

- > The certainty of cash flows enabling the advance to be repaid (both in terms of amount and legal and technical feasibility);
- > The transaction is financially neutral for the State; in that the advance bears an interest rate that at least covers the State's cost of borrowing for an equivalent maturity date. The interest rate paid by the entity must not be lower than that on Treasury Bonds with an equivalent maturity date, or the closest possible maturity date¹.

Moreover, the State and public authorities grant repayable "conditional advances" (interest bearing or not) to fund research, development and manufacture of certain equipment. Their repayment is conditional on the success of the project.

2.1.3 Securities negotiable on a market

Debt securities negotiable on a market are book-entry securities traded on financial markets. They take the form of bonds and similar securities such as Medium Term Negotiable Notes ("BMTN") or Euro Medium Term Notes ("EMTN").

According to the characteristics of each class of security, they may bear interest at either a fixed or a floating rate. These securities may have an indexation feature for either principal or interest, have prepaid or accrued interest, and be denominated in euros or another currency.

¹ Article 24 of Constitutional Bylaw on Budget acts ("LOLF") of 1 August 2001.

2.2. Derivative financial instruments

Derivative financial instruments are defined by the Monetary and Financial Code as a list of derivatives decided by Order. They include options, futures, swaps, forward rate agreements and all other derivatives related to financial instruments, currency, interest rates, return, financial indices or commodities.

2.3. Hedging transactions

A hedging transaction consists of associating a hedged item and a hedging instrument in order to reduce the risk that the hedged exposure will have unfavourable effects on the surplus or deficit or future cash flows of the entity.

Hedgeable risks include market risks (interest rate, exchange, raw material prices). The risk may be fully or partly hedged (for a limited period, for an individual risk when the instrument includes several...).

2.4. Open positions

If a derivative financial instrument is not or no longer part of a hedging relationship, it is considered to be an open position.

3. RECOGNITION AND MEASUREMENT

3.1 Simple financial debts in euros

3.1.1 Recognition criteria

Principal

To qualify for recognition, a financial debt must meet the general recognition criteria for a liability. In the case of loans,

- > The existence of a liability must be certain: the entity must have an obligation to make a payment to a third party; and
- > It must be possible to measure the loans reliably: the loan agreement usually makes reliable measurement possible.

Loans are recognised on their issue or contract date.

3.1.2 Measurement on initial recognition

Financial debts are recognised at redemption value which is usually their face value.

Where the redemption value is different to face value, the difference is spread over the term of the loan on an actuarial basis.

Transaction costs

Loan issuance costs include expenses and commissions paid to financial intermediaries. They consist mainly of bank commissions charged for setting up the loan or fees paid to outside service providers. These costs are part of the overall cost of financing and are spread over the term of the loan on an actuarial basis.

3.1.3 Measurement during the accounting period and at the reporting date

Interest is recognised as an expense. In those cases where interest is capitalised, the entity recognises an increase to financial debts as the corresponding entry for annual financial expense.

3.1.4 Debt extinguishment

A debt is extinguished when it is redeemed or when the contractual obligation to deliver cash expires.

3.1.5 Renegotiation of the terms of a loan

Renegotiation is a modification of the contractual terms and conditions of an existing debt such as interest rate, principal, term, currency or other terms and conditions.

Renegotiation may give rise to a new loan contract or an amendment of the existing contract. It may relate to all or part of the debt. It may be carried out with the same counterparty or with a different counterparty.

However, it is not considered to be a renegotiation where the modification of the terms and conditions, such as a longer maturity or a change in reference rate, is provided for in the initial contract.

Where the renegotiation takes place between the original parties to the loan, the outstanding deferred costs and premiums recognised in the balance sheet and any payments exchanged on renegotiation are spread on an actuarial basis, over the shorter period of the term of the new loan or the outstanding term of the original loan.

When the renegotiation takes place with a new counterparty, the transaction has the effect of extinguishing the original loan and replacing it by a new loan. The latter is presumed to be issued at market rate. In this case, costs arising on repayment of the original loan are recognised as expense and the cost of issuing the new loan spread over the term of the new loan on an actuarial basis.

3.2. Simple financial debts in foreign currency

3.2.1. Measurement on initial recognition

Loans are recognised on the issue date at face value converted at the spot rate applicable on that date. The exchange difference arising between the date when the loan is issued and the date the funds are actually released is recognised in surplus or deficit.

3.2.2. Measurement at the reporting date

Principal

At each reporting date, loans denominated in foreign currencies are converted at the spot rate applicable on the reporting date or on the closest possible date before the reporting date.

Exchange differences, including both unrealized gains or losses, are recognised in surplus or deficit.

Accrued interest

At each reporting date, accrued interest expense is converted using the spot rate applicable on the reporting date or on the closest possible date before the reporting date and recognised in surplus or deficit.

3.3. Loans issued on the market

3.3.1. Premiums and discounts on issue and redemption

Where loans are issued at a price different to their face value, the difference is an issue premium or discount. Where loans are redeemed at a price different to their face value, the difference is a redemption premium or discount.

Loans are recognised as a liability and measured at total redemption value, including premium or discount. The premium or discount on issue or redemption is recognised in a separate account as a balancing entry. Issue discounts and redemption premiums are prepaid expenses² and are presented as assets rather than as deferred expense.

The premium or discount on issue or redemption that are financial expenses for the issuer are spread over the term of the loan on an actuarial basis.

3.3.2. Prepaid interest on issue

Where loans include a prepaid interest feature on issue, the difference between the issue price and the face value represents prepaid financial expense which is presented as an asset rather than as deferred expense.

3.4. Inflation-indexed loans

The capital amount recognised for inflation-indexed loans is adjusted on issue and at the reporting date. The resulting indexation differences are recognised as an expense when they occur over the term of the securities. In the case of deflation, these differences represent financial revenue.

Where redemption is guaranteed at par for inflation-indexed loans the amount recognised as a liability cannot be less than full face value.

² In exceptional cases where the redemption value of the loan is lower than its issue price, the issuer recognises prepaid revenue which is spread over the term of the loan on an actuarial basis.

3.5. Deferred interest loans

In certain cases, the payment of interest may be fully or partially deferred:

- > either because the contract provides for deferred payment of interest,
- > or because the applicable interest rate is lower for certain periods and higher for others.

The deferral of interest payments is a payment facility rather than a cost saving. Therefore interest expense must be calculated and recognised for each period. To achieve this, the entity needs to calculate the expected interest expense over the full term of the loan and allocate it to each period proportionally to the principal amount.

In the case of fixed-rate loans the calculation is based on the rate applicable to each period. In the case of floating-rate loans the calculation is based on the latest known rate and the margin applicable to each period.

3.6. Structured loans (with leverage effect)

There are specific accounting requirements for structured loans which include an additional risk feature, namely the risk of paying a far higher interest rate than for a simple product. The objective is to recognise the risk that borrowing costs will become far higher than market rates (Euribor, Libor, etc.) because of the way the loan is structured.

An estimation of the financial risks included in the loan must be carried out on initial recognition. Where this estimation indicates that the cost of the loan may be higher than the normal market cost, a provision is made to cover the excess.

3.7. Derivative financial instruments

The notional amount of derivatives, including those expected to be settled on maturity, is not recognised in the balance sheet. An appropriate disclosure is made in the notes.

3.7.1. Hedging transactions

In a hedging transaction, the hedging instrument and the hedged item are matched for accounting purposes: revenue and expense arising from the hedging instrument are recognised in surplus or deficit at the same time as those of the hedged item. For example, interest on a swap is recognised at the same time as the interest on the hedged loan, including accrued interest.

Use of options purchased for hedging

The initial premium paid on the purchase of an option is recognised as an asset.

As it is a hedging transaction the premium is recognised in surplus or deficit at the same time as the hedged item. Therefore, if the risk affects several periods (where, for example, a floating interest rate loan is “capped”), the premium is allocated over the hedged period.

3.7.2. Margin calls on derivative financial instruments

Margin calls and guarantee deposits related to these instruments are recognised in the balance sheet.

3.7.3. Cash adjustments

In a swap transaction, cash adjustments are recognised as assets (payments made) or liabilities (payments received), and spread over the term of the contract.

If on termination of a derivative before maturity, an entity makes or receives a cash adjustment, the latter is recognised in surplus or deficit. However, in the case of a hedging instrument the cash adjustment is allocated evenly over the outstanding term of the original contract.

3.8. Hedging transactions with leverage effect

3.8.1. Transactions including a risk component

There are specific accounting requirements for transactions including a hedging component and an additional risk component. Because of the complexity of the transaction, it is appropriate to recognise each of the components separately (as if the transaction had been carried out using two separate instruments):

- > Hedge accounting applies to the hedging component;
- > The remaining risk component is an open position and treated as such for accounting purposes.

3.8.2. Open position

Where it is not possible to demonstrate the existence of a hedging relationship, the transaction is treated as an open position. Changes in the value of open positions are not recognised in the balance sheet.

Where a transaction gives rise to an unrealised loss, a provision for financial expense is made accordingly. For this purpose, the provision may be estimated by reference to classes of related instruments in an open position with the same underlying.

4. DISCLOSURES IN THE NOTES

Loans

The notes provide a description of simple loans and debt securities including their amount, term, financial terms and conditions, transaction costs and repayment terms for the principal.

Changes in the amount of loans for the period are presented in a table.

The outstanding balance at the reporting date and the cash flows for future periods are also disclosed.

Hedging transactions

A description of hedging strategies and hedged items is provided in the notes.

Disclosure is made of the market risks to which the entity is exposed (including interest-rate risk, foreign exchange risk, and liquidity risk).

The financial derivatives used (type and volume of existing contracts) are disclosed.

The market value of these derivatives and the hedged debt are provided in the same note in order to demonstrate the hedge effectiveness.

Open positions

The market value of derivative instruments in an open position is disclosed.



**STANDARD 12
NON-FINANCIAL
LIABILITIES**

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STANDARD 12 NON-FINANCIAL LIABILITIES

Introduction

This Standard deals with non-financial debts and provisions for risks and liabilities. It defines these items and prescribes the applicable recognition, measurement and disclosure requirements.

This Standard should be read in conjunction with Standard 2 “Expenses” and Standard 13 “Commitments to be Disclosed in the Notes”.

I. FOCUS ON MAIN ISSUES

Three issues require clarification or particular attention.

I.1. Recognition criteria for a non-financial liability

The recognition criteria for a non-financial liability are the same as for a liability. Non-financial liabilities are, therefore, recognised when all the three following conditions are fulfilled:

- > The entity has an obligation towards a third party arising in the current period or an earlier period. This Standard refers to Standard 2 “Expenses” which defines the recognition criterion for obligations giving rise to expense by category of expense¹;
- > It is certain or probable that an outflow of resources will be necessary to settle the obligation towards the other party;
- > The amount of the obligation can be estimated reliably.

When these three conditions are fulfilled, the nature of the financial liability recognised (debt or provision) depends on the degree of uncertainty about the amount and timing of the outflow of resources.

I.2. Intervention schemes

Non-financial liabilities (debts, accruals or provisions) include intervention liabilities for schemes implemented by entities on behalf of third parties or for their own account.

Intervention liabilities arise from specific schemes implemented by public entities (Central Government, local and regional authorities, certain entities). Intervention schemes are economic and social aid payments made by a public entity. These payments made, or to be made, form part of aid and support distribution schemes to clearly defined categories of beneficiary, without any equivalent recognisable consideration received in exchange. The categories of beneficiaries are households, businesses, local and regional authorities and other authorities.

¹ Certain obligations giving rise to a liability represent consideration given in exchange for a receivable or a cash component.

I.2.1. The entity has certain powers of decision: transactions for its own account

The entity's responsibility for conducting intervention schemes in favour of one or more final beneficiaries may be defined by law, regulation or its articles of association. Where the entity has the necessary capacity to distribute the relevant aid and support, with certain powers of decision over its attribution, it carries out the transaction for its own account.

Subject to fulfilling the "performance of service" condition, transactions are recognised in the entity's surplus or deficit statement and give rise, where appropriate, to a liability² at the reporting date. Disclosure of the entity's intervention commitments for its own account may also be required in accordance with Standard 13 "Commitments to be Disclosed in the Notes".

I.2.2. The entity has no powers of decision: transactions carried out on behalf of third parties

Intervention on behalf of third parties corresponds to schemes where the entity has no powers of decision over the redistribution of funds it has received from Central Government, the European Union or other entities to the end beneficiary. The entity acts as an agent that implements the intervention scheme on behalf of a third party.

The transaction is classified as on behalf of third parties when all the three following conditions are fulfilled:

- > The scheme involves three parties: the funding provider (Central Government, the European Union or other), the entity and the end beneficiary;
- > The entity has no powers of decision;
- > Funding is not provided by the entity but by Central Government, the European Union or other entities.

The transaction is recognised in debtors/creditors. If the entity is paid a commission for its part in the transaction, the latter is recognised in surplus or deficit along with any expense incurred in implementing the scheme.

I.3. Measurement of provisions for risks and liabilities

The measurement of provisions for risks and liabilities relating to events arising prior to the reporting date takes account of all information available until the finalisation of the accounts³.

² Accruals or provisions for risks and liabilities.

³ See Standard 15 "Events after the Reporting Date".

II. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

II.1. Position of the Standard as compared to Central Government Accounting Standards

This Standard is consistent with the requirements of Central Government Accounting Standard 12 “Non-Financial Liabilities” in distinguishing intervention schemes for the entity’s own account and those implemented on behalf of third parties. This Standard identifies two categories of non-financial liability (non-financial debts and provisions for risks and liabilities) whereas Central Government Accounting Standard 12 includes a third category: “Other Liabilities” which includes Treasury bills issued on behalf of international organisations and the liability in respect of coins in circulation. These items do not apply to entities and have been omitted from this Standard.

II.2. Position compared to the French General Chart of Accounts

This Standard is consistent with the general principles of the French General Chart of Accounts, subject to the above-mentioned specific characteristics of entities.

II.3. Position compared to international accounting standards

This Standard adopts the same recognition criteria for liabilities as in international standards: the existence of an obligation at the reporting date, the expected outflow of resources and the reliability of measurement criterion.

Whilst there is no specific IFRS on non-financial liabilities, the latter are dealt with in the following standards: IAS 17 “Leases”, IAS 19 “Employee Benefits”, IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, and IAS 39 “Financial Instruments: Recognition and Measurement”, in respect of payables.

IPSASs are based on the same model and include IPSAS 13 “Leases”, IPSAS 25 “Employee Benefits”, IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets”, and IPSAS 29 “Financial Instruments: Recognition and Measurement”.

However, intervention liabilities which are a specific feature of the public sector are not dealt with in IPSASs.



STANDARD 12

NON-FINANCIAL LIABILITIES

Requirements

1. SCOPE

This Standard applies to non-financial debts and provisions for risks and liabilities.

However, this Standard does not apply to provisions for financial instruments (which are defined in Standard 11 “Financial debts and Derivative Financial Instruments”).

Provisions for risks and liabilities can be distinguished from non-financial debts because there is greater uncertainty about their amount and maturity.

2. DEFINITIONS

Non-financial liabilities comprise non-financial debts including accrued expense and prepaid revenue, as well as provisions for risks and liabilities.

2.1. Non-financial debts

Non-financial debts are liabilities with a precisely defined amount and maturity. Non-financial debts are the balancing entry for different categories of expense as defined in Standard 2 “Expenses”, or for fixed assets or receivables arising in transactions carried out on behalf of third parties.

Non-financial debts include:

- > accounts payable;
- > payables for fixed assets;
- > tax and social liabilities;
- > advances and payments on account from customers;
- > intervention liabilities arising under schemes implemented on behalf of third parties or for the entity’s own account.

Intervention liabilities under schemes implemented on behalf of third parties arise where the entity has no powers of decision over the redistribution of funds it has received from Central Government, the European Union or other entities to the end beneficiary. The entity acts as an agent that implements the intervention scheme on behalf of a third party.

Intervention liabilities under schemes implemented for the entity’s own account arise where the entity has certain powers of decision over the attribution of funds in the course of its mission.

Prepaid revenue is included in non-financial debts. The entity recognises prepaid revenue where it has an unfulfilled obligation to deliver goods or services in respect of revenue received or receivable at the reporting date.

Accrued expenses are included in non-financial debts. Although it may sometimes be necessary to estimate the amount or timing of accrued expenses, the uncertainty is generally much less than for provisions for risks and liabilities. They are presented in the balance sheet as part of the category of debt to which they relate.

2.2. Provisions for risks and liabilities

Provisions for risks and liabilities are liabilities of which the timing or the amount is uncertain.

They include:

- > provisions for non-financial liabilities of all kinds;
- > provisions for risks, such as litigation, etc.

The entity may have an obligation to pay pension benefits to its employees. The entity may either recognise the corresponding provision for liabilities (preferred approach) or disclose the obligation in the notes.

3. RECOGNITION CRITERIA

Non-financial liabilities are recognised when all the three following conditions are fulfilled:

- > The entity has an obligation towards a third party arising in the current period or an earlier period.
- > It is certain or probable that an outflow of resources will be necessary to settle the obligation towards the other party.
- > The amount of the obligation can be estimated reliably.

In the case of the first condition, Standard 2 “Expenses” defines the recognition criterion for each category of expense¹. This criterion therefore applies to the related non-financial liabilities.

In the case of the second and third conditions, the probability of an outflow of resources and the reliability of measurement are assessed at the latest on finalisation of the accounts, in accordance with the requirements of Standard 15 “Events after the Reporting Date”.

4. MEASUREMENT

4.1. Measurement of non-financial debts

4.1.1. Measurement on initial recognition

Non-financial debts are measured at face value.

Non-financial debts in foreign currency are converted at the spot rate on the date of the transaction.

4.1.2. Measurement at the reporting date

Non-financial debts in foreign currency are converted at the spot rate on the reporting date.

¹ The obligating event for expense must require accrual in the current period.

Prepaid revenue is measured at the amount of revenue from the undelivered goods and services.

Accrued expenses are measured at the amount representing the best estimate of the outflow of resources.

4.2. Measurement of provisions for risks and liabilities

4.2.1. Measurement on initial recognition

Measurement principle

Provisions for risks and liabilities are measured at the amount representing the best estimate of the outflow of funds needed to settle the obligation. The amounts to be taken into consideration are the ones that contribute directly to the settlement of the obligation.

Measurement method

The determination of the amount of the provision is made on an individual or a statistical basis.

Several measurement assumptions may be made about the outflow of resources, but the best estimate is the one based on the most probable assumption, meaning the assumption that covers a large number of similar cases. Uncertainties about the measurement assumptions that are not used should be mentioned in the notes.

The estimated amount must take account of two parameters:

- > the impact of future events, when there is objective evidence that these events will occur. Only data available at the date at which the financial statements are finalised is used to estimate the probable amount of the outflow of resources;
- > compliance with the no-offsetting principle: where some or all of the expenditure required to settle the obligation is expected to be reimbursed, the receivable is recognised separately and does not reduce the amount of the provision.

4.2.2. Measurement at the reporting date

The requirements for the measurement of provisions for risks and liabilities on initial recognition also apply subsequently.

The amount of provisions for risks and liabilities, for which there is a present obligation at the reporting date, is reviewed and adjusted up until the date the financial statements are finalised in order to reflect the current best estimate based on information available at that date.

Provisions that are no longer required are reversed. This occurs where the entity no longer has an obligation or where it is no longer probable that an outflow of resources will be required to settle the obligation.

5. DISCLOSURES IN THE NOTES

5.1. Information on non-financial debts

The nature and amount of prepaid revenue and accrued expenses are set out in the notes.

5.2. Information on provisions for risks and liabilities

For each class of provision for risks and liabilities the entity shall disclose:

- > the carrying amount of the provisions for risks and liabilities at the start and at the end of the period;
- > the additional provisions for risks and liabilities made during the period;
- > the amounts used during the period;
- > the unused amounts reversed during the period.

For each individual provision for risks and liabilities of a significant amount the entity shall disclose:

- > the nature of the obligation and the expected timing of the expenditure provided for;
- > where a statistical method is used for measurement purposes, a description of that method;
- > an indication of the uncertainties about the amount or timing of those outflows , and where necessary, the major assumptions made concerning future events used for the estimation;
- > the amount of any expected reimbursement.

In those rare cases where it is not practicable to provide the required information or measure an obligation reliably, then that fact is disclosed.

In those cases where disclosure of all or part of the required information can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, the disclosure may be limited to information of a general nature about the dispute. In this case the entity indicates that the required information has not been disclosed and the reason for not disclosing it.

**STANDARD 13
COMMITMENTS
TO BE DISCLOSED
IN THE NOTES**

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STANDARD 13

COMMITMENTS TO BE DISCLOSED IN THE NOTES

Introduction

This Standard identifies the commitments an entity is required to disclose in the notes because of their materiality and their possible impact on the assets and liabilities that make up the entity's financial position. These commitments are sometimes called "off-balance sheet commitments".

This Standard also defines the measurement approach for these commitments. This Standard should be read in conjunction with Standard 2 "Expenses" and Standard 12 "Non-Financial Liabilities".

Lastly, regarding post-employment employee benefits, this Standard deals exclusively with the post-employment benefits provided by the entity itself. It does not cover the post-employment benefit obligations assumed by Central Government or other entities. The latter are covered by specific requirements. In addition, the accounting requirements for post-employment benefits provided by the entity may well be reviewed in the course of a global project on post-employment benefits.

I. DEVELOPMENT OF THE STANDARD

I.1. Standard based on Central Government Accounting Standards

This Standard is mainly based on Central Government Accounting Standards (RNCE). It should be noted that The French General Chart of Accounts does not provide a precise definition of the commitments to be reported in the financial statements.

The presentation of commitments must comply with general accounting principles and give a true and fair view of the entity's financial position. The types of commitments that need to be disclosed in the notes are determined by reference to the entity's activities, missions and areas of responsibility. The event giving rise to a commitment under an economic or social intervention scheme is defined by law, regulation or the entity's articles of association, even if it is more difficult to establish a comprehensive list of commitments than for a business enterprise.

Nevertheless, in order to provide a true and fair view all material commitments must be disclosed in the notes.

This Standard identifies classes of commitment based on Central Government Accounting Standards. These classes are not however mandatory as each entity is required to present the classes of commitment relevant to its own situation in order to provide the best possible information to the users of its financial statements. The three classes of commitment specified in this Standard are for guidance only and do not constitute an exclusive list.

If an entity discloses commitments under an economic or social intervention scheme, the latter are identified and disclosed according to the requirements for contingent liabilities.

Thus the entity has a possible obligation, when under a given scheme, an initial appropriation decision has been taken with a long-term effect, but where all of the conditions necessary to establish the entitlement of the beneficiary have not been fulfilled at the reporting date or where the said conditions have to continue to be fulfilled for future periods.

For example, this occurs when payments made under long-term schemes are subject to resource levels and the fulfilment of the resource condition has to be confirmed on an annual basis. Payments to be made for future periods therefore represent possible obligations of the entity.

A contingent liability must be distinguished from a provision for risks and liabilities (which is a liability):

- > either because no present obligation exists at the reporting date (only a possible obligation);
- > or because even if a present obligation exists, it is not probable or certain that an outflow of resources will be required to settle the obligation. However, if this assessment changes and the outflow of resources can be reliably measured, a provision is recognised.

Lastly, the entity may also receive commitments. The same scope and disclosure principles apply to commitments given or received.

I.2. Post-employment benefit obligations

This Standard deals exclusively with post-employment benefits provided by the entity to its own employees. Post-employment benefits may include pensions, supplementary pension schemes, compensation and allowances for retirement and other similar employee benefits. The civil service post-employment obligations assumed by Central Government or other entities will be dealt with by separate requirements at a later date.

French regulations applying to commerce stipulate that *“the enterprise’s commitments for pensions, supplementary pension schemes, compensation and allowances for retirement and other similar benefits for employees and partners shall be disclosed in the notes. Enterprises may also decide to report an amount corresponding to some or all of these commitments in the form of a provision on the balance sheet”* (Article L 123-13 of the Commercial Code).

The French General Chart of Accounts stipulates that liabilities for pensions, supplementary pension schemes, compensation and allowances for retirement and other similar benefits for employees, partners and corporate officers may be recognised in part or in full as provisions. In addition, it recommends that the total obligation in respect of serving and retired employees should be provided for in order to improve financial reporting.

Consequently, entities have the choice of either recognising post-employment obligations in the balance sheet, as recommended, or disclosing them in the notes.

Entities which have already provided for such obligations do not have the option of making the relevant disclosures in the notes instead.

II. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

II.1. Position of the Standard as compared to Central Government Accounting Standards

This Standard is consistent with the requirements of Central Government Accounting Standard 13 “Commitments to be Disclosed in the Notes to the Financial Statements”, subject to the specific features mentioned above. Consequently, this Standard does not deal with post-retirement obligations of civil servants and other similar costs borne by other entities. This Standard deals only with post-retirement obligations the costs of which are borne by entities within its scope.

II.2. Position compared to the French General Chart of Accounts

This Standard is consistent with the general principles of the French General Chart of Accounts, subject to the above-mentioned specific characteristics of entities.

II.3. Position compared to international accounting standards

IPSAS 25 “Employee Benefits” and IAS 19 “Employee Benefits” both require post-employment benefits to be fully provided for in the balance sheet. This Standard therefore diverges from international accounting standards, as it allows entities to choose between either recognising post-employment obligations in the balance sheet, as recommended, or disclosing them in the notes.



STANDARD 13 COMMITMENTS TO BE DISCLOSED IN THE NOTES

Requirements

1. SCOPE

1.1. Limits

Commitments to be disclosed in the notes to the entity's financial statements meet the definition of a contingent liability which consists of:

- > either a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- > an obligation of the entity which is not probable or certain to require an outflow of resources to settle the obligation.

This Standard also applies to commitments received which are subject to the same disclosure requirements as commitments given.

1.2. Classes of commitment

There are three classes of commitment to be disclosed in the notes, although the entity may adapt these classes to suit its activity:

- > The first class covers commitments given under the terms of clearly defined agreements. These are financial or contractual commitments given by the entity. These commitments are characterised by contracts or legal documents that are binding on the entity and the other party. They include:
 - debt guarantees granted;
 - guarantees related to missions of public interest, such as insurance mechanisms;
 - liability guarantees:
 - disposals and restructuring of enterprises;
 - guarantees related to the implementation of specific structures;
 - the entity's financial commitments:
 - co-financing contract;
 - other material financial commitments.
- > The second class covers commitments arising from the entity's role as economic and social regulator. These are the entity's possible obligations, where all of the conditions necessary to establish the entitlement of the beneficiary have not been fulfilled at the

reporting date or where the said conditions have to continue to be fulfilled for future period.

- > The third class covers commitments stemming from entity's liability in known litigation and obligations acknowledged by the entity that do not meet the conditions for being recognised as provisions for risks.

1.3. Post-employment benefits

The entity may have an obligation to pay employee benefits such as retirement compensation or supplementary pension payments, when its employees retire. The entity may recognise a provision for the post-employment benefit liability in the balance sheet, as recommended, or disclose them in the notes.

2. DISCLOSURE REQUIREMENTS

The notes provide the users of the financial statements with relevant information about the possible effects of material commitments on the entity's financial position at the reporting date.

Measurement of these commitments is not always possible.

Disclosure of a commitment includes an appropriate narrative description. Where measurement is possible, the unbiased and precise valuation of the commitment is also disclosed.

The entity's commitment must be effectively identified for disclosure purposes. There must be a present obligation at the reporting date even if its fulfilment is conditional. It is then a possible obligation.

- > If the obligation is unconditional when the accounts are finalised, but the outflow of resources is improbable or uncertain, it remains an off-balance sheet commitment for the entity.
- > If the obligation is unconditional when the accounts are finalised, and the outflow of resources is probable or certain, it is a liability and is recognised in the entity's balance sheet.

Two situations determine the mode of presentation of the commitment in the notes:

- > the amount of a commitment is disclosed in the notes, if the valuation of the obligation can be obtained directly from a legal document or from practices relating to the commitment, or if the obligation cannot be measured at the reporting date, but can be measured at the time the financial statements are finalised on the basis of criteria that are specific to the nature of the commitment;
- > an appropriate narrative description of the commitment and the possible liability must be included in the notes when the obligation cannot be measured when it arises or at on finalising the financial statements.

Where the commitment can be measured, it is preferable to disclose the amount rather than just a narrative description. The latter is however required to supplement and explain quantified information.

3. MEASUREMENT

The measurement requirements are different for each class of commitment:

- > where the commitment arises under a binding agreement the total amount of the guarantee granted is disclosed;
- > where the commitment relates to the entity's economic and social regulation role, an estimated amount is provided where possible. The estimation may take the form of a range of values;
- > where the commitment relates to the entity's liability arising from a recognised obligation, an estimation is provided, where possible, either of a range of values or the maximum amount of the risk.

Where the commitment relates to the entity's obligations for post-employment benefits, the measurement assumptions are disclosed.

**STANDARD 14
CHANGES IN ACCOUNTING
POLICY, CHANGES IN
ACCOUNTING ESTIMATES
AND THE CORRECTION
OF ERRORS**

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STANDARD 14 CHANGES IN ACCOUNTING POLICY, CHANGES IN ACCOUNTING ESTIMATES AND THE CORRECTION OF ERRORS

Introduction

I. OBJECTIVE

The Standard “Changes in Accounting Policy, Changes in Accounting Estimates and the Correction of Errors” has several objectives:

- > enhance the relevance and reliability of the financial statements;
- > ensure the comparability of the financial statements over time and with the financial statements of other entities.

This Standard prescribes the accounting treatment and disclosures of changes in accounting policy, changes in accounting estimates and the correction of errors.

II. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

II.1. Position of the Standard as compared to Central Government Accounting Standards

This Standard is consistent with the requirements of Central Government Accounting Standard 14 “Changes in Accounting Policy, Changes in Accounting Estimates and the Correction of Errors”. However, the comparative information adjusted for the effects of changes in accounting policy, changes in accounting estimates and the correction of errors required by this Standard is disclosed in the notes and not on the face of the financial statements.

In addition, the requirements of this Standard have been adapted to meet the needs of entities subject to corporate income tax.

II.2. Position compared to the French General Chart of Accounts

This Standard is consistent with Article 122-2 of the French General Chart of Accounts which is based on the requirements of CNC Opinion n° 97.06 of 18 June 1997 on changes in accounting policy, changes in accounting estimates and tax options and the correction of errors. Nevertheless, this Standard includes requirements additional to those in the French General Chart of Accounts. Comparative information adjusted for the effects of changes in accounting policy, changes in accounting estimates and the correction of errors is disclosed in the notes.

II.3. Position compared to international accounting standards

The requirements of this Standard in respect of changes in accounting policy, changes in accounting estimates and the correction of errors are similar to those of IAS 8 and IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors”.

Standard 14 requires comparative information adjusted for error corrections to be disclosed in the notes. Consequently, the assets, liabilities, equity and surplus or deficit of the period preceding the period in which the error occurred are restated.



STANDARD 14 CHANGES IN ACCOUNTING POLICY, CHANGES IN ACCOUNTING ESTIMATES AND THE CORRECTION OF ERRORS

Requirements

1. SCOPE

This Standard prescribes the accounting treatment and disclosures of changes in accounting policy, changes in accounting estimates and the correction of errors for public sector entities.

2. CHANGES IN ACCOUNTING POLICY

2.1. Definition of accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting its financial statements. Accounting policies are used for preparing and presenting financial statements containing relevant and reliable information on the transactions and events to which they apply.

2.1.1. Absence of accounting policy

In the absence of an accounting policy that specifically applies to a transaction or an event, the entity shall use judgement in developing and applying an accounting policy that results in accounting information that complies with generally accepted accounting principles.

In making the aforementioned judgement, the entity shall refer to, and consider the applicability of, the following sources in descending order:

- > the requirements of Standards applicable to the entity dealing with similar and related issues;
- > the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses in the accounting, legal and regulatory frameworks applicable to the entity and, if necessary, the frameworks which are the main source of the latter.

2.1.2. Consistency of accounting policies

If the accounting framework permits the application of different accounting policies for the same category of items, the entity selects the most appropriate policy and applies it consistently to that category.

2.2. Changes in accounting policies

2.2.1. Applying changes in accounting policies

According to the consistency principle, the users of financial statements must be able to compare them over time. Comparability implies the consistent use of accounting policies within each period and from one period to the next. An entity only changes its accounting policies in the two following cases:

- > the change is required by a Standard or a regulation applicable to the entity;
- > the change results in the entity's financial statements providing more reliable and more relevant information on its surplus or deficit or financial position.

However, the following are not changes in accounting policy:

- > the application of an accounting policy to transactions or other events that differ substantially from those that occurred previously;
- > the application of a new accounting policy to transactions or other events or that did not occur previously or were immaterial.

2.2.2. Recognition and adjustment of comparative information

General rule¹

The change in accounting policy is applied by adjusting equity² on 1 January of the period in which it is adopted. Consequently, the opening balance of each affected item of assets, liabilities and equity for this period is adjusted for the effects of the change in accounting policy, as if the new accounting policy had always been applied.

Where as a result of the change in accounting policy, provisions are recognised directly through equity, the part of these provisions for which no corresponding expenses were recognised is also reversed directly through equity.

The comparative information disclosed in the notes for the period prior to the first period of application of the new accounting policy is presented as if the new accounting policy had always been applied by the adjustment of the affected item of assets, liabilities, equity and surplus or deficit.

¹ The effect of the change in accounting policy is recognised directly through opening unappropriated surplus or deficit, unless the entity is required for tax purposes to recognise it through the surplus or deficit of the period in which the change is implemented.

² In the case of the effects of changes in accounting policy, because expense must be effectively recognised in the accounts of the period to be allowed as a deduction from taxable income, the National Accounting Council (CNC) Opinion n° 97-06 stipulates that an enterprise (in this case an entity) may recognise the effects of the change in the income statement.

Limitations on the application of the general rule

If it is impracticable³ to determine the effects on the affected items of assets, liabilities, equity and surplus or deficit for one or more comparative periods presented in the notes, the entity shall apply the new accounting policy at the start of the first period for which retrospective application is practicable, which may be the current period.

If it is impracticable to determine the effects of the change on the affected items of assets, liabilities, equity and surplus or deficit for all the prior periods presented in the notes, the new accounting policy is applied prospectively as from the beginning of the first accounting period for which it is practicable and the cumulative effect of the adjustment on items of assets, liabilities and equity arising from transactions prior to that date is disregarded.

Existence of specific provisions

Where the change in accounting policy arises as a result of the introduction of new legal requirements including specific provisions, the change in accounting policy is applied in accordance with these provisions, which may for example be transitional application provisions.

2.2.3. Disclosure in the notes

When an entity introduces a change in accounting policy, it makes the following disclosures in the notes:

- > the nature of the change in accounting policy;
- > for the current period and each prior period presented, to the extent practicable, the amount of the adjustment to each financial statement line item affected;
- > the amount of the adjustment relating to periods before those presented, to the extent practicable.

Where the change is mandatory as a result of a regulation applicable to the entity, the latter also discloses:

- > the regulation making the change mandatory;
- > where applicable, the fact that the change in accounting policy has been implemented in compliance with any specific provisions.

Where the change of accounting policy is voluntary, the entity explains the reasons why applying the new accounting policy provides more reliable and relevant information.

If retrospective application is impracticable in respect of comparative information presented in the notes, the entity discloses the circumstances that brought about that situation and the date from which the change in accounting policy is first applied.

Financial statements of subsequent periods need not repeat these disclosures.

³ The concept of impracticability is explained in the illustrative examples.

3. CHANGES IN ACCOUNTING ESTIMATES

3.1. Definition of accounting estimates

As a result of the uncertainties inherent in economic activity and the nature of public policy measures, many items in the financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information.

3.2. Requirements for changes in accounting estimates

3.2.1. Applying a change in accounting estimate

It may be necessary to revise an estimate in the event of a change in the circumstances in which it was originally made, or in the light of new information or further experience. By definition, revisions of estimates do not apply to prior periods and are not corrections of errors.

A change in accounting estimate is therefore an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Moreover, the techniques used for implementing accounting policies and principles are chosen by the entity. The techniques used for implementing the same accounting policies and principles may vary from one entity to another or vary over time within the same entity.

Differences and changes in implementation techniques are normal and similar in substance to changes in accounting estimate.

When it is difficult to distinguish a change in an accounting policy from a change in accounting estimate, the change is treated as a change in accounting estimate.

3.2.2. Recognition and adjustment of comparative information

By nature, a change in accounting estimate only affects the current and future periods. The change can only be recognised prospectively. The effect of the change for the current period is recognised in the accounts for the period⁴.

Prospective recognition of the effect of a change in accounting estimate means that the change is applied to transactions and events from the date of the change in estimate, namely in the current period and in future periods if the latter are affected by the change.

3.2.3. Disclosures in the notes

An entity shall disclose the nature and amount of any change in accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except when it is impracticable to estimate that effect.

⁴ Changes in accounting estimate may affect different line items in the surplus or deficit statement and the balance sheet.

If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

4. CORRECTION OF ERRORS

4.1. Definition of errors

Errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- > was available when financial statements for those periods were finalised for issue; and
- > could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Errors may arise in respect of recognition, measurement, presentation or disclosure of elements of financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts.

4.2. Requirements for the correction of errors

4.2.1. Recognition and adjustment of comparative information

General rule: retrospective restatement⁵

A prior period error is corrected retrospectively. The correction of a prior period error does not affect the surplus or deficit of the period in which the error is detected.

The error is corrected in the period in which it is detected by adjusting the opening balances of assets, liabilities and equity for the effect of the prior period error.

The comparative information for the prior period of items of assets, liabilities, equity and/or surplus or deficit affected by the correction is restated in the notes of the period in which the error is detected.

Limitations on retrospective restatement

A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable either to determine the period-specific effects or the cumulative effect of the error.

When it is impracticable⁶ to determine the period-specific effects of an error on comparative information for one or more prior periods presented in the notes, the entity shall restate the opening balances of the affected items of assets, liabilities, equity and/or surplus or deficit for the earliest period for which retrospective restatement is practicable, which may be the current period.

When it is impracticable to determine the amount of an error for prior periods, the entity restates the comparative information prospectively from the earliest date practicable. It therefore

⁵ Tax regulations for the correction of errors are distinct from accounting regulations, including those in the French General Chart of Accounts and in this Manual (see tax principles laid down by the Supreme Administrative Court ("Conseil d'Etat").

⁶ The concept of impracticability is explained in the illustrative examples.

disregards the portion of the cumulative restatement of the affected items of assets, liabilities and equity arising from transactions or events before that date.


4.2.2. Disclosures in the notes

When an entity corrects an error it shall disclose the following:

- > the nature of the prior period error;
- > for each prior period presented, to the extent practicable, the amount of the correction of each affected financial statement line item;
- > the amount of the correction at the start of the earliest prior period presented.

If retrospective restatement is impracticable for a particular prior period, the circumstances that led to this situation and a description of how and from when the error was corrected are disclosed.

Financial statements of subsequent periods need not repeat these disclosures.



STANDARD 14
CHANGES IN ACCOUNTING POLICY,
CHANGES IN ACCOUNTING ESTIMATES
AND THE CORRECTION OF ERRORS

**Illustration of the impracticability of
retrospective application**

In certain circumstances, it is impracticable to determine the period-specific or cumulative adjustments of the comparative information relating to one or more prior periods to achieve comparability with the current period.

For example, certain data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy or retrospective restatement to correct a prior period error; it may also be impracticable to recreate the information.

In other cases, it is necessary to make estimates in order to apply an accounting policy to elements of financial statements.

Developing estimates is potentially more difficult when retrospectively applying an accounting policy, or when making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the transaction or event in question occurred.

However, the purpose of estimates for prior periods remains the same as for estimates made during the current period, namely to reflect the circumstances prevailing at the time of the transaction or event. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period.

Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:

- > provides evidence of the circumstances existing on the date(s) the transaction or other event occurred; and
- > would have been available at the time of publication of the financial statements for this prior period.

Therefore, if the retrospective application or restatement requires making a material estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.



**STANDARD 15
EVENTS AFTER THE
REPORTING DATE**

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STANDARD 15

EVENTS AFTER THE REPORTING DATE

Introduction

I. BACKGROUND, DEFINITIONS AND RECOGNITION CRITERIA

The objectives of this Standard are to ensure:

- > the relevance and reliability of the financial statements, and
- > the quality of financial reporting.

The Standard prescribes when the financial statements should be adjusted and what information should be disclosed in respect of events occurring after the reporting date. The Standard defines the concept of events after the reporting date, the final date for adjusting the financial statements, and the information to be disclosed in the notes to the financial statements.

These events occur between:

- > the reporting date, meaning the 31 December of the period N, and
- > the date on which the financial statements are finalised for issue by the governing body¹.

No further events can be taken into account after the approval of the financial statements for issue. The financial statements can no longer be changed once they have been published and any events occurring after the date of approval have no impact on those financial statements.

For entities within the provisions of the Order of 7 November 2012 on budgetary management and public accounting, the approval date as defined in Article 212 of this Order² is the date on which the governing body meets to approve the financial statements.

¹ The financial statements of entities within the provisions of the Order of 7 November 2012 on budgetary management and public accounting (GBCP Order) are included in the “financial account.”

² Article 212 of the Order of 7 November 2012 on budgetary management and public accounting:

“The entity’s financial account is drawn up by the accountant at the end of each accounting period. For this purpose, the authorising officer provides the accountant with the accounting statements under his responsibility in accordance with Article 208. The financial account is signed by the authorising officer who certifies it includes the accounts under his responsibility and reflects the orders given to the accountant in application of Articles 24 and 32.

The authorising officer submits the financial account to the governing body which approves it after consulting the accountant within two months of the reporting date. It is accompanied by a management report for the current period prepared by the authorizing officer. If the accountant’s remarks on the quality of the accounts are not taken into account he may annex a schedule of representations to the financial account”.

II. RECOGNITION AND MEASUREMENT: EXAMPLES

The requirements of this Standard define in what circumstances the financial statements should be adjusted and what information should be disclosed in respect of events occurring after the reporting date. The following examples illustrate these principles.

II.1. Adjusting events after the reporting date

An entity shall adjust the amounts recognised in its financial statements and include previously unrecognised amounts to reflect adjusting events as illustrated by the following examples:

- > Where the settlement after the reporting date of a court case confirms that the entity had a present obligation at the reporting date, the entity adjusts any previously recognised provision related to this court case or recognises a new provision in accordance with the requirements of Standard 2 “Expenses” and Standard 12 “Non-financial liabilities”. Where the settlement confirms the existence of a liability the entity does not merely continue to disclose a contingent liability in the notes but recognises the liability in the balance sheet. Where appropriate, additional information may be provided in the notes.
- > The receipt of information after the reporting date may indicate that an asset was impaired at the reporting date or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example, the sale of an asset after the reporting date may give evidence of its recoverable amount at the reporting date, provided the conditions prevailing at the date of sale were the same as at the reporting date. Conversely, a decline in the value of an asset after the reporting date does not give rise to adjustment.

II.2. Non-adjusting events after the reporting date: disclosure in the notes

Certain material events occurring after the reporting date only require disclosure in the notes. This applies to an accidental loss, litigation or court case arising after the reporting date.

III. GOING CONCERN

The going concern principle that underlies French and international accounting standards for the private sector has been omitted from this Standard, as it does not apply to public entities in the same way as to private entities which may cease operations.

In practice, it is assumed the State never winds up an entity without transferring its operations to another entity, or only in very exceptional circumstances.

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1 Position of the Standard as compared to Central Government Accounting Standards

The requirements of this Standard are similar to those of Central Government Accounting Standard 15 “Events After the Reporting Date”.

In the case of entities, events after the reporting date are events that occur between the reporting date and the date on which the financial statements are approved for issue by the governing body, usually the board of directors, whereas the Central Government’s financial statements are signed and approved by the minister.

IV.2 Position compared to the French General Chart of Accounts

This Standard is consistent with the French General Chart of Accounts.

The deadline for adjusting the accounts in the private sector is the date they are approved by the board of directors or other governing body depending on the legal form of the entity.

IV.3 Position compared to international accounting standards

The requirements of this Standard are similar to those of IAS 10 and IPSAS 14, “Events After the Reporting Date”.

IAS 10 (paragraphs 5 to 7) defines the deadline for adjusting the financial statements as the date they are authorised for issue and recognises that this is prior to approval by the shareholders. IPSAS 14 (§ 6 à 8), clarifies this expression, indicating that it is the date the financial statements are finalised for issue, meaning they are finalised for audit purposes and can no longer be adjusted.

The specific guidance in IPSAS 14 on the going concern principle has been omitted from this Standard because it deals with situations with no practical relevance.



STANDARD 15

EVENTS AFTER THE REPORTING DATE

Requirements

1. SCOPE

This Standard applies to the recognition of events after the reporting date and to the related disclosures.

2. DEFINITIONS

2.1. Events after the reporting date

Events after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date the financial statements are finalised for issue.

Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the reporting date (“adjusting events” after the reporting date which give rise to adjustments to the financial statements);
and
- (b) those that are indicative of conditions that arose after the reporting date (“non-adjusting events” after the reporting date requiring only disclosure in the notes).

2.2. Reporting date

The reporting date is the last day of the reporting period to which the financial statements relate, meaning the 31 December of the period N.

2.3. Date of finalisation for issue

The date of finalisation of the financial statements for issue is the date on which they are approved by the governing body.

Financial statements should be adjusted or information should be given in the notes when events occur between the reporting date and the date of issue.

3. RECOGNITION AND MEASUREMENT

3.1. Adjusting events after the reporting date

An entity shall adjust the amounts recognised in its financial statements and include previously unrecognised amounts to reflect events occurring after the reporting date that relate to conditions existing at that date.

Adjusting events provide additional information about the value of the entity's assets and liabilities at the reporting date. These events occurring after the reporting date provide information enabling an entity to make a more reliable estimation of the amount of its obligations at the reporting date.

3.2. Non-adjusting events after the reporting date: disclosure in the notes

An entity shall not adjust the amounts recognised in its financial statements to reflect events occurring after the reporting date that do not relate directly to conditions existing at that date.

4. DISCLOSURES IN THE NOTES

Events after the reporting date that occur between the reporting date (i.e. the 31/12/N) and the date the financial statements are finalised for issue are disclosed in the notes. The date the financial statements are finalised for issue is disclosed in the notes in order to inform users of the period covered by the relevant disclosures.

4.1. Updating disclosure about conditions existing at the reporting date

If the entity receives information after the reporting date about conditions that existed at the reporting date, it shall update disclosures that relate to those conditions, in the light of the new information.

An example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to examining whether there is a need to recognise a provision, the entity should update its disclosure regarding the contingent liability in the light of this new information.

4.2. Disclosure of non-adjusting events

If non-adjusting events after the reporting date (unrelated to conditions existing at the reporting date) are of sufficient importance that non-disclosure could influence the economic decisions of users taken on the basis of the financial statements, the entity should disclose the following for each material category of non-adjusting events after the reporting date:

- (a) the nature of the event; and
- (b) an estimate of its financial effect or a statement that such an estimate cannot be made.

Non-adjusting events after the balance sheet date include:

- > the announcement of a plan to discontinue an activity;
- > the disposal of assets or the settlement of liabilities attributable to the discontinuation of an activity, or again the signature of irrevocable agreements to dispose of these assets or settle these liabilities;
- > major purchase of assets;
- > abnormally large changes after the reporting date in asset prices;
- > the destruction of assets by fire after the reporting date.

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STANDARD 17

HERITAGE ASSETS

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STANDARD 17 HERITAGE ASSETS

Introduction

I. DEFINITION

None of the existing reporting frameworks provide a definition of heritage assets. They portray heritage assets in a piecemeal and non-convergent manner.

It is therefore difficult to provide a definition of heritage assets both because of the lack of source information in reporting frameworks and because the scope of heritage assets is vast and vague and any definition of it is necessarily subjective.

Nevertheless, certain of the characteristics of heritage assets may be identified as follows:

- > immovable and movable property of historical, esthetical or scientific value;
- > immovable and movable property with a high symbolic value because it is rare and/or ancient;
- > property with a service potential directly related to its nature or its symbolic value which is unmeasurable. Therefore, because of the nature of heritage assets, their value in use cannot be determined by reference to the cash flows they generate (expected future economic benefits from use and disposal) or even by reference to their service potential which, by definition, is not measurable. Indeed, this service potential relates to the historical, artistic, archaeological or scientific value for the public or researchers which cannot be measured in purely economic terms.

However, these characteristics alone do not provide sufficient criteria for defining the scope of immovable and movable heritage assets. Consequently, this Standard defines heritage assets by reference to the laws and regulations that determine the specific legal status of heritage assets and define them objectively by classification and registration procedures. In this way, the scope of heritage assets is determined by listing the property in question.

II MEASUREMENT

II.1. Measurement on initial recognition

This Standard acknowledges the symbolic nature of the value of heritage assets, either in measuring them for a token amount of one euro or according to the requirements defined in this Standard.

The symbolic nature of the value of heritage assets, which are deemed inalienable, precludes measurement at market value and changes in value subsequent to initial recognition.

II.2. Measurement at the reporting date

As stated above, the value in use of a heritage asset cannot be determined by reference to the cash flows it generates or to its expected service potential, which could only be measured by reference to the expected future economic benefits from its use and disposal. Indeed, its service potential relates to its cultural, historical, artistic, archaeological or scientific value for the national heritage, the public or researchers. Because the market value of a heritage asset cannot always be estimated and is not relevant for inalienable property, and value in use is based on qualitative rather than quantitative criteria, there is no basis for measuring heritage assets differently at the reporting date than on initial recognition.

Therefore, the token or fixed amount used to measure heritage assets on initial recognition is invariable.

At the reporting date, heritage assets are measured by the entity for the same amount as on initial recognition. As a result of this requirement, heritage assets are not revalued, depreciated or impaired at the reporting date.

If a heritage asset suffers significant partial deterioration, the entity makes an appropriate disclosure in the notes.

II.3. Subsequent expenditure

Work carried out on a heritage asset is treated separately from the main asset. The latter is carried at its core value, whatever that amount is, and treated as a token non-depreciable amount.

As a result, general accounting principles can be applied to the subsequent expenditure without affecting the accounting treatment of the “underlying” heritage assets.

III. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

III.1. Position of the Standard as compared to Central Government Accounting Standards

The requirements of this Standard are similar to those of Central Government Accounting Standard 17 “Heritage Assets”. This Standard acknowledges the symbolic nature of the value of heritage assets. Therefore, the token or fixed amount used to measure heritage assets on initial recognition is invariable.

However, an option has been introduced allowing the entity to disclose a different value for a heritage asset in the notes than on the face of the financial statements. This is generally the insurance value. Insurance value is not relevant for Central Government which is its own insurer.

III.2. Position compared to the National Accounting Council (CNC) Opinion and the French General Chart of Accounts

This Standard is based on the measurement requirements of CNC Opinion n° 2009-17 of 10 November 2009.

The treatment of subsequent expenditure is based on the general principles of the French General Chart of Accounts.

III.3. Position compared to IPSASs

This Standard is also based on the measurement requirements of IPSAS 17 “Property, Plant and Equipment”. IPSAS 17 does not require the recognition and measurement of heritage assets in accordance with the definitions and requirements applicable to property, plant and equipment. If an entity recognises heritage assets, it must make the disclosures required by IPSAS 17, and may but is not required to apply the measurement requirements in that IPSAS.



STANDARD 17 HERITAGE ASSETS

Requirements

1. DEFINITION OF HERITAGE ASSETS

Heritage assets are restricted to those assets controlled by the entity that are governed by one of the following statutory regimes.

1.1. Immovable heritage assets

The following are immovable heritage assets:

1° Listed or registered historical monuments (Articles L.621-1 and L.621-25 of the French Heritage Code “code du patrimoine”);

2° Listed or registered natural monuments and sites (Article L.630-1 of the French Heritage Code “code du patrimoine”– Articles L.341-1 and L.342-2 of the French Environmental Code “code de l’environnement”);

3° Buildings subject to the Act of 9 December 1905 relating to the Separation of the Church and the State.

1.2. Movable heritage assets

Movable heritage assets are identified in Article L.112-11 of the French Heritage Code “code du patrimoine” and L.2112-1 and of the Public Entity Ownership Statute, the “code général de la propriété des personnes publiques”. These assets are as follows:

1° Cultural assets included in the categories defined by Order of the French Supreme Administrative Court, the “Conseil d’État”:

- > listed historical monuments (Articles L.622-1 and L.622-10 of the French Heritage Code “code du patrimoine”) or historical archives pursuant to the French Heritage Code;
- > classified as national treasures by the Central Government based on the recommendation of the commission provided for in Article L. 111-4 of the French Heritage Code;

2° Cultural assets that belong to a public entity and which are:

- > either listed in the collections of museums with the label “musées de France” or other museums and similar heritage organisations, archives or library conservation holdings;
- > or listed historical monuments or archives pursuant to the French Heritage Code;

3° Cultural assets that+ are held in public places of worship or their outbuildings, are classified as monuments or historical archives or national treasures by the Central Government based on the recommendation of the commission provided for in Article L. 111-4 of the French Heritage Code;

4° An identified copy of each of the documents deposited as prescribed by Article L.131-2 of the French Heritage Code for the purpose of creating a national archive (legal deposit);

5° Public archives as defined by Article L.211-4 of the French Heritage Code;

6° Archives from private sources acquired for public collections by purchase, gift, payment in kind or bequest;

7° Discoveries of movable objects that have become or remain public property under Book V, Title II, Chapter 3 and Title III, Chapter 1 of the French Heritage Code;

8° Movable maritime cultural assets as defined by Book V, Title III, Chapter 2 of the French Heritage Code;

9° Movable objects listed or registered under Book VI, Title II, Chapter 2 of the French Heritage Code or located in a listed or registered building and contributing to the presentation to the public of listed or registered portions of the said building;

10° Movable objects of historical or artistic interest, other than those mentioned in 6° above, that have become or remain public property in application of the Act of 9 December 1905 relating to the Separation of the Church and the State;

11° Museum collections;

12° Contemporary works of art and art objects acquired by the National Centre for Plastic Arts and the collections of works of art and art objects registered with the National Contemporary Art Fund of which the Centre has received custody;

13° Library collections of ancient, rare or precious documents;

14° Public collections of furniture and furnishings under the responsibility of the “Mobilier national” and the “Manufacture nationale de Sèvres”.

1.3. Additions

Additions to heritage assets may arise through acquisition, transfer between public entities or donation.

If the addition itself is a heritage asset, the requirements for heritage assets apply.

If not, the requirements for subsequent expenditure apply to the addition.

1.4. Property or property complexes including heritage elements

When property or a property complex which does not meet the definition of a heritage asset in paragraph 1.1 above includes one or more elements within the scope of the statutes listed in paragraph 1.1 which are inseparable by nature or by purpose, then the whole property or property complex is treated as a tangible asset in accordance with Standard 6.

2. MEASUREMENT

2.1. Measurement on initial recognition

The measurement basis for a heritage asset depends on the circumstances.

Heritage assets acquired for purchase consideration are measured at acquisition cost. Assets acquired free of charge (donations or bequests) are measured using a valuer's estimation.

Unrecognised assets already controlled by the entity are measured on initial recognition at a token amount of one euro.

The carrying values of recognised heritage assets acquired in the past remain unchanged and there is no latitude for changing these values. If certain assets were depreciated in the past, the depreciation is not adjusted. No further depreciation is recognised and the net carrying value becomes the new token value.

In addition, where the control of heritage assets held by other public sector entities is transferred to the entity, the following requirements apply unless otherwise specified by the terms of an agreement:

- > Where the asset transfer gives rise to a payment, the asset is measured at the amount of the payment on initial recognition.
- > Where the asset transfer does not give rise to a payment, the transferee measures the asset at the carrying amount in the books of the transferor (carrying amount of the heritage asset, subsequent expenditure, and the related depreciation and impairment where applicable). Where the transferred item was not previously recognised as an asset by the transferor, the transferee entity measures it at a token amount of one euro on initial recognition.

2.2. Measurement at the reporting date

At the reporting date heritage assets are measured at the same amount as on initial recognition.

Heritage assets are not revalued, depreciated or impaired at the reporting date.

If a heritage asset suffers significant partial deterioration, the entity makes an appropriate disclosure in the notes.

3. SUBSEQUENT EXPENDITURE

3.1. Recognition of subsequent expenditure

Work carried out on a heritage asset is treated separately from the main (underlying) asset.

Heritage assets generally undergo restoration or renovation. It is necessary to determine whether the work is reconstruction, major repairs or routine maintenance:

- > Reconstruction work is recognised as a tangible asset separately from the main (underlying) assets.

- > Separately identifiable expenditure relating to the main (underlying) asset may be recognised either as a provision for major maintenance or as a secondary component¹ separate from the main (underlying) asset, where the entity adopts this accounting policy.
- > Routine maintenance is recognised as an expense when it occurs.

3.2. Measurement of capitalisable subsequent expenditure at the reporting date

3.2.1. Depreciation of capitalised subsequent expenditure

Capitalised subsequent expenditure relating to heritage assets has its own depreciation schedule, in contrast to the underlying heritage asset which is not depreciable.

Capitalised subsequent expenditure is depreciated over its useful life.

At the reporting date, depreciation of capitalised subsequent expenditure is recognised as an expense in accordance with the depreciation schedule.

General accounting requirements are applicable to:

- > the measurement of the depreciable amount,
- > the conditions for reviewing the depreciation schedule (depreciation period and method) required as a result of a significant change:
 - in use of the heritage asset,
 - in the very nature of the heritage asset,
- > the conditions for reviewing the depreciation schedule (depreciation period and method) required as a result of impairment following a significant change to the heritage asset.

3.2.2. Impairment of subsequent expenditure

The value in use of a heritage asset is determined by reference to its expected service potential, namely its cultural, historical, artistic, archaeological or scientific value for the national heritage and the general public, and not only to the expected future economic benefits from its use and disposal. Generally, this also applies to capitalised subsequent expenditure related to a heritage asset.

An impairment loss occurs when the recoverable amount of capitalised subsequent expenditure is substantially lower than its net carrying amount, which no longer corresponds to the expected residual service potential for the entity if use of the heritage asset continues.

Therefore, if the recoverable amount of a fixed asset is lower than its carrying amount, the latter is adjusted to the recoverable amount by the recognition of an impairment loss. Any impairment loss recognised is treated as an expense.

The initial recognition of impairment or subsequent changes in impairment, modifies the depreciable amount of the impaired asset for future periods as well as its depreciation schedule.

Impairment criteria and evidence of impairment are described in Standard 6 “Tangible Assets”.

¹ Under the option available in Standard 6 “Intangible Assets”.

3.3. Specific requirements for partly recognised heritage assets

Certain heritage assets have never been recognised other than any subsequent expenditure incurred on extensions, improvements, reconstruction work, etc.

In accordance with general accounting requirements, the amounts already recognised are not modified.

4. DERECOGNITION AND MEASUREMENT ON DERECOGNITION

A heritage asset is derecognised, along with any additions and capitalised subsequent expenditure, when the entity no longer has control over it, or the asset is destroyed.

In both cases, the requirements of Standard 6 “Tangible Assets” apply to derecognition.

5. DISCLOSURES IN THE NOTES

5.1. Accounting policies

Accounting policies for heritage assets and subsequent expenditure are disclosed in the notes, including the basis for:

- > measurement on initial recognition;
- > measurement at the reporting date (depreciation and impairment of subsequent expenditure).

5.2. Notes on the balance sheet

A separate line for heritage assets is included in the tables presenting changes in the amount of tangible assets. An explanation is provided for the main changes in the amount of heritage assets and capitalised subsequent expenditure, including acquisitions, disposals, impairment losses, depreciation and similar events.

Appropriate narrative disclosures are presented in the notes on heritage assets measured at a token amount, including a description of their main characteristics and, where appropriate, the amount and description of any work undertaken.

In addition, the entity may if it wishes, disclose for information purposes a valuation different to that presented on the face of the balance sheet (for example, market value if it is known or insurance value, etc.). The date of any valuation must be provided.

If a heritage asset suffers significant partial deterioration, the entity makes an appropriate disclosure in the notes.

Where an official procedure for the disposal of a heritage asset is engaged, the entity discloses information on the procedure and the estimated market value of the asset in the notes of the reporting period in which the entity becomes legally entitled to dispose of the asset. Where a formal unequivocal decision is taken to forego the alienation procedure, an appropriate disclosure is made in the notes.

**STANDARD 18
CONTRACTS
FOR THE PROVISION
OF PUBLIC SERVICES**

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STANDARD 18

CONTRACTS FOR THE PROVISION OF PUBLIC SERVICES

Introduction

I. BACKGROUND AND SCOPE

The Standard “Contracts for the provision of public services” includes the complete accounting requirements for assets¹ under contracts for the provision of public services.

The assets within the scope of this Standard are those provided, constructed or acquired by another party for the purposes of providing a public service as part of a binding arrangement between the entity and this other party². It is necessary to consider the accounting treatment not only of the asset but also of the corresponding consideration in the accounts of the entity. In some cases, the contract entails the provision of a public service based on the use of an asset already controlled by the entity.

The Standard defines the accounting treatment of the asset notwithstanding any contrary provisions which may exist in Standard 6 “Tangible Assets”³.

The Standard sets out successively the requirements for recognition and measurement of the asset as well as requirements for the corresponding consideration (i.e. recognition of a financial liability or an entry in equity).

II. DEFINITION

Assets used by the entity for the provision of public services are generally acquired, constructed, operated and maintained by the entity using public funding. However, public entities may involve other private or public sector entities in the construction, development, financing, operation and maintenance of assets used for the provision of a public service directly or by these other entities, which in this case operate the assets as well. These contracts may be described as contracts for the provision of public services which the entity has concluded with another party⁴. Although the scope of the Standard is not defined by reference to any particular legal model, it does cover assets provided, constructed, acquired or financed as part of

¹ Assets within the scope of the Standard may include equipment and structures.

² Assets transferred by the entity to public or private entities or assets already held by the entity handed over to other parties that operate them for their own benefit as part of a contractual arrangement or in application of a unilateral decision (such as a decision to authorise occupation of public property) are outside of the scope of this Standard. See Standard 6 for the accounting treatment applicable to assets transferred or handed over by the entity or of which the latter has authorised the occupation.

³ The same requirements apply, all things being equal, to intangible assets.

⁴ Hereinafter, the co-contracting party is referred to as the other party. Different terms may be used to describe the other party depending on the legal sources: co-contracting party, delegatee, etc.

partnership arrangements^{5/6} or of delegations of public service⁷, in particular service concession arrangements⁸.

According to this Standard, an asset, under a contract for the provision of a public service, forms a coherent unit⁹ defined in the contract and classified in accordance with Standard 6 “Tangible Assets” based on the nature of the unit.

The Standard also addresses the accounting treatment of the consideration exchanged for the assets, irrespective of the legal status of the contract. The accounting treatment is based on an examination of the terms of the contract.

III. RECOGNITION OF THE ASSET

The contractual asset is recognised in the entity’s accounts provided both of the following conditions are met:

- > the asset is controlled by the entity¹⁰;
- > its cost or value can be measured with sufficient reliability.

⁵ The partnership contract is defined by article 1 of the Order of the 17th June 2004 amended by Law n° 2008-735 of the 28th July 2008 as follows:

“ I. —A partnership contract is an administrative contract under which the State or a State-run entity entrusts to a third party, for a period set according to investment amortization or agreed financing terms, a comprehensive project related to the funding, construction or conversion, upkeep, maintenance, operation or management of works, equipment or intangible assets necessary to provide a public service.

It may also have as its object all or a part of the design of such works, equipment or intangible assets as well as the provision of services for which the public body is responsible under its public sector mission.

II. — The co-contracting party of the public body shall assume the operational responsibility for the works to be carried out. It may be assigned, with its consent, all or a part of the contracts executed by the public body in fulfilling its public sector mission.

The co-contracting party shall receive payment from the public body throughout the term of the contract. Payment shall be tied to performance objectives assigned to the co-contracting party (...).”

⁶ It should be noted that contracts authorising temporary occupation of public property (AOT) linked to a lease with a purchase option (LOA) and including a public service clause may be considered as contracts for the provision of public services. Consequently, this type of contract is within the scope of Standard 18. Where no service is provided, AOT/LOA are classified as finance leases within the scope of Standard 6 “Tangible Assets”.

⁷ The delegation of public services is defined, as far as the Central Government is concerned, by article 38 of Law n° 93-122 of the 29th January 1993 relating to the prevention of corruption and to transparency in economic life and public procedures, in the so-called “Sapin Law”. This definition was codified in article L. 1411-1 sub-paragraph 1 of the General Code for Local Authorities which defines a delegation of public services as “*a contract in which a corporate public entity entrusts the management of a public service for which it is responsible to a delegatee which may be either a private or public entity, in exchange for compensation which is substantially linked to the operating results of the public service. The delegatee may be responsible for the construction or acquisition of the assets necessary to provide the service.*”

A service concession arrangement is one of the main types of contract used for the delegation of public service. According to doctrine, a service concession arrangement is defined as “*a contract in which a public sector entity (the grantor) entrusts public works and/or the provision of a public service to a corporate entity (the operator), generally from the private sector, at the latter’s own risk and for a defined period, which is generally long, in exchange for the right to charge the users of the public service a fee.*”

⁸ There are other types of contract for the delegation of public service under French Law (“l’affermage,” “la régie intéressée,” “la gérance”...) but they do not usually include the provision, the construction or the acquisition of assets by the independent operator although it cannot be totally excluded. It occurs in certain contracts (“affermage”). Wherever this situation arises, this Standard applies to the assets provided, constructed, acquired by the other party for the purposes of operating the delegated public service.

⁹ A coherent unit is a functional group made up of different kinds of items (structures, plant, equipment...) necessary or useful to the other party in delivering the service according to the terms of the contract.

The coherent unit concept is used to determine the classification of the contractual asset with regard to the initial and reporting date measurement requirements of Standard 6 Tangible Assets.

¹⁰ It should be noted that the European System of National Accounts (ESA 95) has currently adopted a risk-based approach to accounting for public-private partnership assets.

III.1. Indicators of control

In order to determine whether the entity satisfies the control criteria defined in Standard 6 “Tangible Assets” and included in this Standard, a certain number of indicators have been defined. These indicators provide evidence of the existence of control by the entity. It is not necessary for all of these indicators to be identified to confirm the existence of control by the entity.

1- *The inability of the other party to sell or pledge the asset.*

The ability of the other party to pledge the asset is not sufficient in itself to demonstrate control by the latter, especially if the asset is pledged for a limited period, with the consent of the entity and if it does not affect the transfer of the asset to the entity at the end of the contract.

2- *The occupation of public property.*

3- *The entity specifies the characteristics of the asset.*

4- *The conditions of management of the public service are mainly specified by the entity¹¹.*

Without directly managing the public service, the entity determines the contractual conditions of management of the public service, and consequently controls the asset.

5- *Regulation of the income derived from the asset by the other party.*

There is a presumption that the entity controls the asset when the contract enables it to exercise a degree of control over income derived from the asset by the other party. The entity exercises control by remunerating or compensating the other party¹², or alternatively by fixing the remuneration conditions of the latter.

Control exists when the other party’s income represents remuneration for services performed as part of the management of the public service, in particular if this remuneration is unrelated to the level of use of the asset for public service.

Control is less evident when the other party’s income is related to the level of use of the asset. Nevertheless, it may exist as a result of the entity’s power to fix prices, whether this power is contractual or regulatory, irrespective of whether the power is exercised by the entity.

The entity may also exercise control over income where the other party is contractually bound to pay royalties when specified contractual income or profit levels are reached.

6- *The transfer by the other party of the contractual rights and obligations relating to the asset to the entity at the end of the contract.*

These rights and obligations may be transferred to the entity with or without charge.

¹¹ This indicator applies more specifically to concessions.

¹² This applies to the majority of public-private partnership arrangements.

III.2. Reliability of measurement

A controlled asset is recognised on the condition that its cost or value can be measured with sufficient reliability. Otherwise, recognition is postponed until such time as that condition may be satisfied.

III.3. Presentation of the financial statements

Concession (or similar) assets and the amount of work in progress for concession (or similar) assets shall be identified separately in the financial statements.

III.4. Capitalisable subsequent expenditure

General principles

An asset recognised in the entity's balance sheet that is under a contract to provide public services may undergo subsequent expenditure. This expenditure is capitalised where it has the purpose, under the terms of the contract, of restoring the financial balance between the parties¹³ and if it is probable that future economic benefits or service potential will flow to the entity, which is greater than the most recent assessment of the level of performance originally defined for the existing asset or defined when the expenditure is incurred. The difference compared to the original level represents an increase in the useful life of the asset, an expansion of its capacity, a decrease in the cost of use or a substantial improvement in production quality.

Minor repairs, routine upkeep and maintenance, one for one replacement or restoration without improvement in the level or quality of service are not capitalised.

Consistent with the above principles, any capitalisable subsequent expenditure is recognised as an addition to the main asset.

IV. MEASUREMENT

IV.1. Measurement on initial recognition

The basis for measuring assets under a contract to provide public services on initial recognition is set out in this Standard.

IV.2. Measurement at the reporting date

At the reporting date, assets acquired by the entity for the purposes of contracts for the provision of public services shall be measured according to the requirements applicable to other assets of the same class as defined in Standard 6 "Tangible Assets".

The entity may recognise¹⁴ impairment losses when tests conducted following an evident deterioration of the physical state of the asset provide evidence of significant damage, caused by exceptional circumstances (for example, terrorist attacks, flooding, fire, etc.), which prevent its normal use. In addition, where the entity has knowledge of an event making it impossible in

¹³ By extending the contract or by changing the financial terms.

¹⁴ Subject to any specific contractual provisions.

the short term to use the asset according to the terms of the contract, tests are carried out to determine if there is evidence of technical obsolescence. If the tests confirm the asset is obsolescent, the entity recognises appropriate impairment.

The asset is measured taking into account any contractual obligation of the other party to maintain the asset on a regular basis and hand it over to the entity at the end of the contract with the same level of service as at the outset. Contractual terms of this kind make it unnecessary to depreciate or impair the asset in the entity's accounts.

V. CONSIDERATION EXCHANGED FOR THE INITIAL COST OF THE ASSET

This Standard addresses the treatment of the consideration exchanged for the recognised asset under a contract for the provision of public services in the accounts of the entity.

V.1. Amounts paid by the entity to fund the asset

The entity may have an obligation under the terms of the contract to make payments to fund the assets¹⁵. The payments are usually made according to a schedule included in the contract.

Certain payments may be due by the entity during or even before the construction phase.

These amounts meet the definition of a financial liability for the entity and are recognised when the latter is contractually obliged to pay, provided they can be reliably measured.

Subsequently, the entity recognises the amounts paid to fund the assets as a reduction in the amount of the financial liability initially recognised and as related interest expense.

Asset funding granted to the other party under the terms of the contract for the provision of public services, may only be payable by the entity after the completion of certain construction phases. These amounts are recognised as financial liabilities in accordance with the contract up until the payment date.

In the case of public-private partnerships, the capital amount stipulated in the contract or, if not, the present value of charges in respect of the investment, represent a liability for the entity on recognition of the asset.

Financial liabilities are recognised at the capital amount stipulated in the contract or, if not, at the present value of the amounts payable by the entity to fund the asset.

V.2. Difference between the initial cost of the asset and the amounts payable for funding

The financial liability recognised by the entity is usually equal to the cost of the asset on initial recognition, as in many public-private partnership contracts. In this case, the financial liability given as consideration by the entity is recognised for exactly the same amount as the asset.

Conversely, when the other party's remuneration is generated entirely by the users of the service, there is no financial contribution by the entity, as in the case of concession contracts. In this case the corresponding entry to the recognition of the asset is an increase in equity. This

¹⁵ The payments may take the form of a charge covering the capital cost of the investment or of a financial facility; irrespective of the name they are given.

treatment reflects the expected increase in the net assets of the entity which will be fully realised at the end of the contract without any cash outflow.

In other cases, the amount of the financial liability is less than the cost of the equipment recognised as an asset (the other party's remuneration covering the funding of the asset comes from payments made both by the entity and users). Any difference between the initial cost of the asset and amounts payable for funding is recognised in equity. This treatment reflects the expected increase in net assets of the entity which will be fully realised at the end of the contract without any cash outflow.

In those cases where depreciation or impairment expense has been recognised through the surplus or deficit statement, a release of the amount initially recognised in equity is made through surplus or deficit statement. This release is equal to the amount of the expense and is adjusted where appropriate to take account of the proportion of the amount initially recognised in equity as compared to the initial cost of the asset¹⁶.

VI. RECOGNITION OF OTHER CONTRACTUAL ITEMS

VI.1. Amounts payable by the entity other than for funding the asset

Where the terms of the contract require the entity to make a down payment or other payments over the term of the contract, which are not directly related to the construction or the acquisition of the asset, the latter are recognised, where applicable, as period expense in accordance with Standard 2 "Expenses"¹⁷. Other debts of a non-financial nature are measured according to the requirements of Standard 12 "Non-financial Liabilities".

VI.2. Amounts received by the entity

Certain contracts require the other party to make cash payments to the entity. This occurs in particular where the other party receives remuneration from users in excess of the cost of operating the public service.

The entity's contractual revenue is recognised on a straight-line basis in the surplus or deficit statement. In principle, the amounts receivable by the entity are billed evenly over time so that recognition as revenue of the amounts billed corresponds to a straight-line basis.

The application of a straight line basis for revenue recognition may, however, require an accounting adjustment through the use of deferral accounts where, without any economic justification, the billing is not evenly spread over time. Thus, for example, when the public entity receives a material amount on signature of the contract as an entry fee, this remuneration is spread on a straight-line basis over the life of the contract.

Where remuneration is linked to contractual performance criteria, this fraction of the remuneration is allocated to the surplus or deficit statement of the periods in which the performance is achieved, as soon as the entity has knowledge of it.

¹⁶ As an illustration, if for a given contract: (i) an asset of 100 currency units (CU), a financial liability of 90 CU and an increase of equity of 10CU are recognised in Y and (ii) an impairment of the equipment of 20 CU is recognised in Y+1, a reversal of the amount initially recognised in equity of 2CU will be made through the surplus or deficit statement.

¹⁷ This applies to operating fees payable by the entity or the interest portion of funding payments.

VII. ACCOUNTING TREATMENT AT THE END OF THE CONTRACT FOR THE PROVISION OF PUBLIC SERVICES

Where the assets are financed by the entity over the life of the contract, as in the case of most partnership contracts, the financial liability initially recognised, is paid off by the end of the contract. The end of the term of the contract does not give rise to any particular transactions in the entity's balance sheet.

With regard to other assets which revert to the entity at the end of the contract:

- > if the asset is already controlled by the entity, the increase in equity arising on the initial recognition of the asset is unaffected;
- > if the asset is not already controlled by the entity, the asset is recognised and the equivalent consideration is recognised in equity.

Where the contract provides for compensation payable by the entity on return or recovery of the asset, the compensation is recognised as an expense of the period in which it is due, once the returned or recovered asset is recognised in the entity's balance sheet.

Assets acquired by the entity through contracts for the provision of public services shall be measured according to the requirements applicable to other assets of the same class as defined in Standard 6 "Tangible Assets".

When, at the end of the concession period, the entity wishes the assets to remain under concession until a new contract is signed, the requirements of Standard 18 continue to apply and an appropriate disclosure is made in the notes.

VIII. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

VIII.1. Position of the Standard as compared to Central Government Accounting Standards

The requirements of this Standard are similar to those of Central Government Accounting Standard 18 "Contracts for the provision of public services".

VIII.2. Position compared to the French General Chart of Accounts

The requirements of Article 621-6 (et seq.) of the French General Chart of Accounts only deal with the accounts of the operator.

VIII.3. Position compared to international accounting standards

These requirements of this Standard are convergent with IPSAS 32 "Service Concession Arrangements: Grantor", with the exception of the accounting treatment of contracts for which the consideration given by the entity is not entirely in the form of a financial liability. As the balance sheet recognition of these assets does not give rise to the outflow of cash or an equivalent asset, or to a financial liability, it was decided that this increase in assets should be recognised directly in equity. This treatment differs from that of IPSAS 32 which classifies the consideration exchanged as a non-financial liability.



STANDARD 18 CONTRACTS FOR THE PROVISION OF PUBLIC SERVICES

Requirements

1. DEFINITION

The entity may conclude contracts with other parties to provide public services under its control.

The public service provided by the other party generally includes the provision, construction or acquisition of an asset for the purposes of the contract. In some cases, the contract may stipulate that the service may be provided using an asset already under the control of the entity.

For the purposes of this Standard, an asset, under a contract for the provision of a public service, forms a coherent unit¹ defined by the contract.

This Standard applies to assets, liabilities and other accounting elements according to the terms of the contract.

2. RECOGNITION OF THE ASSET

The asset defined in the contract is recognised by the entity if:

- > it is controlled by the entity;
- > its cost or value can be measured with sufficient reliability.

The entity applies these recognition criteria to costs on the date when the latter are incurred.

2.1. Control criteria

The characteristics of control are:

- > control over the conditions of use of the asset;
- > control over the service potential and / or the future economic benefits derived from this use.

Recognition of the asset takes place when control is transferred, which is generally when the risks and rewards associated with ownership are transferred.

There is a presumption of control by the entity when the latter assumes the risks and expense associated with ownership.

¹ A coherent unit is a functional group of different kinds of items (structures, plant, equipment...) necessary or useful to the other party in delivering the service according to the terms of the contract.

The coherent unit concept is used to determine the classification of the contractual asset with regard to the initial and reporting date measurement requirements of Standard 6 "Tangible Assets".

The following indicators provide evidence of the exercise of control of an asset under a contract for the provision of public services by Central Government:

- > the inability of the other party to sell or pledge the asset;
- > the occupation of public property;
- > the entity specifies the characteristics of the asset;
- > the conditions of management of the public service are mainly specified by the entity;
- > regulation of the income derived, from the asset, by the other party;
- > the transfer by the other party to the entity of the contractual rights and obligations relating to the asset at the end of the contract.

It is not necessary for all of these indicators to be identified to confirm the existence of control by the entity.

2.2. Reliability of measurement

A fixed asset is recognised on the condition that its cost or value can be measured with sufficient reliability. Otherwise, recognition is postponed until such time as that condition may be satisfied by the entity.

2.3. Equipment under construction

Control over equipment under construction is determined by reference to the criteria and indicators set out above.

When the cost of the equipment under construction cannot be measured reliably, recognition is postponed until such time as the entity is able to make a reliable estimate of its cost. As a result, recognition may be delayed until the commissioning of the equipment.

3. MEASUREMENT

3.1. Measurement of the asset on initial recognition

The asset is measured at cost on initial recognition.

The cost may include not only external costs incurred by the other party, such as the amounts paid to contractors for construction costs or to the manufacturer of the equipment, but also internal costs, such as the cost of project staff, and capitalised interest expense.

Private-public partnership contracts are required to indicate the cost of the investment as stipulated in article 11 of the Order n° 2004-566 of 17 June 2004. Where this information is not available, the asset is capitalised and measured as the total amount of cash outflows representing the amortisation of borrowed capital, under the assumption that the entity provides the major part of the funding of the asset.

3.2. Measurement at the reporting date

At the reporting date, assets under contracts for the provision of public services shall be measured according to the requirements applicable to other assets of the same class, as defined in Standard 6 “Tangible Assets”.

The asset is measured taking into account any contractual obligation of the other party to maintain the asset on a regular basis and hand it over to the entity at the end of the contract with the same level of service as at the outset. Contractual terms of this kind make it unnecessary to depreciate or impair the asset in the entity's accounts.

4. CONSIDERATION EXCHANGED FOR THE INITIAL COST OF THE ASSET

4.1. Amounts paid by the entity to fund the asset

The amounts payable by the entity for the funding of the asset are recognised as a financial liability.

The financial liability is recognised at the capital amount stipulated in the contract or, if not, at the present value of the amounts payable by the entity to fund the asset.

4.2. Difference between the initial cost of the asset and the amounts payable for funding

Any difference between the cost of the asset and the initial amount of the entity's funding liability is recognised in equity.

Where all or part of the consideration for the asset is recognised through equity, and depreciation or impairment expense in respect of that asset is subsequently recognised through the surplus or deficit statement, a release of the amount initially recognised in equity is made through surplus or deficit statement. This release is equal to the amount of the expense and is adjusted, where appropriate, to take account of the proportion of the amount initially recognised in equity as compared to the initial cost of the asset.

5. RECOGNITION OF OTHER CONTRACTUAL ITEMS

5.1. Amounts payable by the entity other than for funding the asset

Where the terms of the contract require the entity to make a down payment or other payments over the term of the contract, which are not directly related to the construction or the acquisition of the asset, the latter are recognised, where applicable, as period expense in accordance with Standard 2 "Expenses"².

Other debts of a non-financial nature are measured according to the requirements of Standard 12 "Non-financial Liabilities".

5.2. Amounts received by the entity

The entity's contractual revenue is recognised in the surplus or deficit statement on a straight-line basis over the term of the contract.

² This applies to operating fees payable by the entity for the interest portion of funding payments.

Where a part of the revenue is linked to contractual performance criteria, this part is allocated to the surplus or deficit statement of the periods in which the performance is achieved, as soon as the entity has knowledge of it.

6. DERECOGNITION AND MEASUREMENT ON DERECOGNITION

A tangible asset is derecognised when the entity no longer has control over it, or when the asset is no longer in use retired and no further economic benefits or service potential are expected from the asset. The requirements of Standard 6 “Tangible” Assets are applicable.

7. PRESENTATION

7.1. Reporting format

The information provided in the financial statements (balance sheet, surplus or deficit statement and the notes) distinguishes two types of contract: (i) contracts under which the other party has access to the asset in order to provide a public service and (ii) contracts which have the principal purpose of providing funding for the entity.

7.2. Presentation of the accounts

Assets and liabilities arising under a contract for the provision of public services are presented as separate balance sheet items. Detailed commentary is provided in the notes to the financial statements.

8. DISCLOSURES IN THE NOTES

8.1. Disclosure of accounting policies

The notes set out the accounting policies adopted for recognising assets and liabilities relating to contracts for the provision of public services, in particular with respect to their measurement on initial recognition and depreciation schedule. Disclosure is made of the way in which the other party’s maintenance obligations are taken into account in estimating the useful life of the assets.

8.2. Disclosure of accounting information

The information provided on assets and liabilities relating to contracts for the provision of public services is at least equivalent to that required for other assets and liabilities.

Where contract assets are identified on separate lines in the balance sheet, the schedules setting out changes in gross value and depreciation present these lines in the same way as for other classes of fixed assets.

Disclosures include information on changes of a specific nature such as the transfer to the other contracting party of assets previously managed directly by the entity, or conversely, the transfer of former contract assets to the entity for direct management by the latter.

Disclosure requirements for financial liabilities contracted in respect of contracts for the provision of public services are the same as for other classes of financial liabilities. They may

therefore include the repayment schedule, the type of interest rate (fixed, floating), forfeiture of the term clauses, etc.

Disclosure is also made of changes in equity for the period.

Disclosure is made, in accordance with Standard 12 “Non-financial liabilities”, of the amount of any provisions in respect of contracts for the provision of public services at the reporting date, and in particular the amounts provided for anticipated breaches of contract.

8.3. Other disclosures

The entity:

- > provides a breakdown by contract maturity date of the carrying value of assets at the reporting date;
- > discloses the contracts for which the investments are not yet reflected in its balance sheet, in application of the requirements of paragraphs 2.2. Reliability of measurement and 2.3. Equipment under construction;
- > discloses the financial liabilities arising from contracts for which the investments are not yet recognised in its balance sheet and the corresponding increase in equity expected as a result of realising the investments;
- > discloses the amounts of non-financial liabilities due by the entity over the residual life of the contracts;
- > discloses the carrying amount in its accounts at the reporting date of assets which the other party has an obligation to maintain in good condition;
- > discloses compensation and other amounts which it may have to pay at the end of the contracts when recovering the assets;
- > describes the method of determining compensation it would incur on early termination of the contracts at its own initiative;
- > discloses terminated concession contracts which have not been renewed.



**STANDARD 19
LONG-TERM
CONTRACTS**

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STANDARD 19 LONG-TERM CONTRACTS

Introduction

I. BACKGROUND AND SCOPE

Certain entities enter into contracts with other parties¹ to perform transactions of a commercial nature over several periods that may be classified as long-term contracts according to the definition in this Standard. These transactions may relate to the construction of equipment or also, for example, to the fields of education or archaeology. The other party to the contract, sometimes called the co-contractor, is the recipient of products or services under the terms of the contract. The risk associated with performance of the contract is mainly borne by the performing entity and not by the other party.

In a long-term contract, the date at which the contract activity is entered into and the date when the activity is completed fall into two different accounting periods.

Consequently, the main accounting issue relating to these contracts is the allocation of revenue² and costs to the periods in which the work or the service is performed by the entity which produces the goods or delivers the service.

A long-term contract may be negotiated for the construction of a single asset (such as a bridge, a building, a dam, a pipeline, a road, ship or tunnel) or a number of assets which are closely interrelated in terms of their design, such as a public water supply system or a refinery.

The Standard Long-Term Contracts includes the full accounting requirements for long-term contracts which are defined notwithstanding any contrary requirement which may be included in Standard 6 “Tangible Assets”³ and Standard 8 “Inventories”. This Standard sets out the recognition and measurement requirements for revenue and costs associated with long-term contracts.

The following are, however, excluded from the scope of this Standard:

- > contracts or binding agreements with renewable funding and framework contracts for a single service (for example, training projects, services subdivided into lots, etc.): although these transactions are of a repetitive nature and may cover several years, the performance of each transaction is for a limited time and can be readily associated with the related funding. Consequently the accounting requirements of Standard 2 “Expenses” and Standard 4 “Revenue” apply;

¹ The other party may be a public sector entity.

² The revenue in question is turnover from the transaction.

³ All things being equal the same requirements apply to Standard 5 “Intangible Assets”.

- > contracts in which the risks associated with the performance of the contract are borne by the other party (cost plus contracts⁴...): the requirements of Standard 2 “Expenses” and Standard 4 “Revenue” apply;
- > contracts or similar binding agreements for funding intangible or tangible assets⁵ which remain the property of the entity that conducted the project study or work: this point is dealt with in Standard 20 on asset funding;
- > transactions covering several periods that are not part of a contract or agreement in which the other party, project or funding are clearly identified: the costs are recognised in the surplus or deficit of the period in which the work or services are performed in accordance with the requirements of Standard 2 “Expenses”. In this case the funding will be treated as a conditional or unconditional grant (see Standard 20 on asset funding);
- > contracts for the provision of public services⁶ covered by another Standard (Standard 18 “Contracts for the Provision of Public Services”).

II. DEFINITION OF A LONG-TERM CONTRACT

A long-term contract is a contract⁷ or similar binding agreement:

- > with a long duration, where the time necessary to complete the contract covers at least two accounting periods,
- > specifically negotiated as a single project for the construction or production of an asset or the performance of services generally of a complex nature⁸ in which the entity may act as a subcontractor, for the benefit of a third party.

The entity has a right to contractual revenue to the extent the work performed is compliant with the terms of the contract.

Long-term contracts are usually fixed price contracts in which the entity accepts to carry out work for a fixed price determined on conclusion of the contract. The fixed price may vary subject to price change adjustment or incentives.

Long-term contracts are specifically negotiated as single projects.

The funders of long-term contracts receive equivalent consideration in exchange. The consideration consists of a deliverable handed over to the other party which may include the construction or production of a single item of goods or the performance of a single service, or a number of goods and services generally of a complex nature over a period covering at least two

⁴ Contracts in which the entity agrees to carry out work in return for the reimbursement of its agreed costs plus a percentage or a fixed fee.

⁵ Certain agreements (contracts for research, development, market and other studies, etc.) include arrangements for the funding of long-term public sector projects by private or public sector entities (State, European Union, National Public Establishments (EPN), local and regional authorities, etc.). The funding arrangements usually include subsidising part or all of the costs incurred. Indeed, these agreements are comparable to grants because the funders receive no equivalent consideration in return and the entities concerned by these projects that cover at least two reporting periods retain the ownership of the project outputs (such as intellectual or industrial property rights).

⁶ These contracts relate in particular to public-private partnerships and service concessions. The latter are not long-term contracts according to the definition of the National Accounting Council (CNC) Opinion n°99-10.

⁷ According to Article 1101 of the French Civil Code, a contract is an “*agreement by which one or more persons make a promise to one or more other persons to give, to do or not to do something*”.

⁸ The goods and services concerned are those which are closely interrelated or interdependent in terms of their design, technology, function or ultimate purpose as part of a single project.

reporting periods. The entity's entitlement to contractual revenue is subject to full completion of the project and final approval of the technical compliance of the project by the funder.

Combining and segmenting long-term contracts

The requirements of this Standard are usually applied separately to each long-term contract. However, in certain circumstances, it is necessary to apply this Standard to the separately identifiable components of a single contract or to a group of contracts together to reflect the substance of a contract or a group of contracts.

Where a contract covers a number of assets, the construction of each asset shall be treated as a separate contract when all of the three following conditions are met:

- > separate proposals have been submitted for each asset,
- > each asset has been subject to separate negotiation and the entity and the other party have been able to accept or reject that part of the contract relating to each asset,
- > the costs and revenues of each asset can be identified.

A group of contracts whether with a single party or with several parties, shall be treated as a single contract when:

- > the group of contracts is negotiated as a single package,
- > the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and
- > the contracts are performed concurrently or in a continuous sequence.

A contract may provide for the construction of an additional asset at the option of the other party or may be amended to include the construction of an additional asset. The construction of an additional asset shall be treated as a separate contract when:

- > the asset differs significantly in design, technology or function from the asset or assets covered by the initial contract,
- > the price of the asset is negotiated independently of the original contract price.

III. DEFINITION OF THE ELEMENTS OF A LONG-TERM CONTRACT

III.1. Contract revenue

Principle

Contract revenue shall comprise:

- > the initial amount of revenue⁹ agreed in the contract,
- > variations in contract work or services, claims and incentive payments due by the other party, to the extent that it is probable they will result in revenue, and/or they are capable of being reliably measured.

⁹ Revenue that will be billed to the other party and recognised as turnover by the entity.

For example:

- > an entity and another party may agree variations in contract work or services or claims that increase or decrease contract revenue in a period subsequent to that in which the contract was initially agreed,
- > the amount of revenue agreed in a fixed-price contract may increase as a result of a price change clause or similar item,
- > the amount of contractual revenue may decrease as a result of penalties arising from delays caused by the entity in the completion of the contract,
- > where a fixed-price contract involves a fixed price per unit of output, contract revenue increases or decreases as the number of units increases or decreases.

Variations

A variation is an instruction by the other party for a change in the scope of the work or services to be performed under the contract. A variation may lead to an increase or decrease of contract revenue. Examples of variations are changes in the specification or design of the asset and changes in the duration of the contract.

A variation is included in contract revenue when:

- > it is probable that the other party will approve the variation and the amount of revenue arising from the variation, and
- > the amount of revenue can be measured reliably.

Claims

A claim is an amount that the entity seeks to collect from the other party or another entity as reimbursement for costs not included in the contract price. A claim may arise, for example, from delays caused by the other party, errors in specifications or design and disputed variations in contract work or services.

The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore claims are included in contract revenue only when:

- > negotiations have reached an advanced stage such that it is probable that the other party will accept the claim, and
- > the amount that it is probable will be accepted the other party can be measured reliably.

Incentive payments

Incentive payments are additional amounts paid to the entity if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the entity for early completion of the contract.

Incentive payments are included in contract revenue when:

- > the contract is sufficiently advanced such that it is probable that the specified performance standards are met or exceeded, and
- > the amount of the incentive payment can be measured reliably.

Entities shall review amounts paid directly to sub-contractors under the long-term contract (unusual in the public sector) in order to determine whether they meet the definition and recognition criteria of revenue and costs (see below) of the entity under the terms of the contract. The amounts that meet the definition and recognition criteria of revenue shall be recognised in the same way as other revenue arising under the contract.

III.2. Contract costs

Contract costs shall comprise:

- > costs that relate directly to the specific contract,
- > costs that are attributable to contract activity in general and can be allocated to the contract in a systematic and rational manner, and
- > such other costs that are specifically chargeable to the other party under the terms of the contract.

Costs that relate directly to a specific contract

These costs include:

- > labour costs, including supervision,
- > costs of materials and consumables used in constructing the asset or providing the service,
- > depreciation of plant and equipment used on the contract,
- > where applicable for construction contracts, the costs of moving plant, equipment and materials to and from the contract site,
- > costs of hiring plant and equipment,
- > costs of design and technical assistance technique directly related to the contract,
- > the estimated costs of rectification and guarantee work, including expected warranty costs,
- > claims from third parties.

These costs may be reduced by any incidental income that is not included in contract revenue, for example income from the sale of surplus materials and consumables at the end of the contract.

Entities shall review amounts paid directly by sub-contractors under the long-term contract (unusual in the public sector) in order to determine whether they meet the definition and recognition criteria of contract costs. The amounts that meet the definition and recognition criteria of contract costs (for revenue see above) shall be recognised in the same way as other costs arising under the contract.

Costs that may be attributable to contract activity in general

Costs that may be allocated to specific contracts include:

- > insurance,
- > design costs not directly related to a specific contract,
- > production overheads.

Such costs are allocated using methods that are systematic and rational and are applied consistently to all costs having the same characteristics. The allocation is based on the normal level of contract activity. Production overheads include costs such as the preparation and processing of the payroll for production personnel. Costs that may be attributable to contract activity in general and can be allocated to specific contracts include borrowing costs where the entity is authorised to use this method of funding in order to determine full cost.

Costs that are specifically chargeable to the other party under the terms of the contract

These costs may include general administration and development costs for which reimbursement is specified in the terms of the contract.

Contract costs include costs attributable to a contract for the period from the date of securing the contract to the date of completion of the contract. However, costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing the contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

Excluded costs

Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from long-term contract costs. These costs include:

- > general administration costs for which reimbursement is not specified in the contract,
- > selling costs,
- > research and development costs for which reimbursement is not specified in the contract,
- > depreciation of idle plant and equipment that is not used on a particular contract.

IV. RECOGNITION AND MEASUREMENT OF A LONG-TERM CONTRACT

A contract is recognised according to the stage of completion.

The (stage or) percentage of completion method consists of recognising turnover and profit or loss from the contract by reference to its stage of completion. This method is applicable irrespective of whether the expected outcome is a profit or a loss.

It is necessary to distinguish two situations:

- > the outcome of the contract can be estimated reliably,
- > the outcome of the contract cannot be estimated reliably.

IV.1. Measurement when the outcome of the contract can be estimated reliably

When the outcome of the contract can be estimated reliably, contract revenue and costs shall be recognised as revenue and expenses respectively by reference to the stage of completion of

the contract activity at the reporting date. An expected loss on the long-term contract shall be recognised as an expense immediately.

Conditions for the reliable estimation of the outcome

All the following conditions must be satisfied in order to use this method:

- > an inventory is carried out of items mentioned in paragraph III above,
- > acceptance of the work completed by the other party,
- > existence of financial forecasts.

The entity has some latitude in interpreting the degree of certainty of acceptance conditions under the terms of the contract, as the latter may not be formalised. Acceptance may for example be based on professional practices.

The stage of completion method requires the implementation of a financial budgeting and reporting system for contracts which identifies contract revenue and costs. It is also essential that the system enables the stage of completion of each contract to be determined and periodic revised estimates of the contract outcome to be made.

It should be noted that the above-mentioned conditions are set out in Article L. 123-21 of the Commercial Code (code de commerce).

Determining profit or loss using the percentage of completion method

The recognition of revenue and expenses according to the stage of completion is often referred to as the percentage of completion method.

The profit or loss is determined as the proportion of the projected profit or loss on completion corresponding to the percentage of work completed. The projected profit or loss on completion is the forecast margin as compared to cost. The percentage of completion is determined using the method or methods that measure reliably the work and services performed and accepted according to their nature. The percentage of completion cannot be based solely on contractual elements (such as partial acceptance, transfer of title, etc.) or only on financial elements (such as partial billing, advances, progress payments, etc.). The following methods may be used:

- > the proportion that the costs incurred for work and services performed at the reporting date bear to the estimated total contract costs,
- > surveys or physical measurement of work and services performed.

Generally, advances and progress payments received from the other party do not reflect the work performed.

Where the stage of completion is determined by reference to the contract costs incurred to date, only those costs that reflect work performed are included in costs incurred to date. Examples of contract costs which are excluded are:

- > contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site, or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made specifically for the contract,

- > payments made to subcontractors, in advance of work performed under the subcontract.

Under this method, contract revenue is matched with contract costs incurred in reaching the stage of completion, resulting in the presentation of revenue, expenses and profit or loss which can be attributed to the proportion of work completed. This method provides useful information on the extent of contract activity and performance during a period.

Recognition

All costs relating to the performance of the contract are recognised at the reporting date.

Costs not reflecting the stage of completion because they relate to future activity are recognised in inventories, work in progress or prepaid expenses.

Contract revenue is recognised as turnover and may be adjusted upwards or downwards. The purpose of this adjustment is to recognise the level of revenue which, after deducting the costs of performing the contract, gives rise to that proportion of projected profit or loss which reflects the percentage of completion.

When at the beginning of the contract it is expected that all contract costs will be fully recovered from the parties to the long-term contract, any expected excess of total contract costs over total contract revenue is recognised as an expense immediately.

When an uncertainty arises about the collectibility of an amount already included in contract revenue, and already recognised in the surplus or deficit statement, the uncollectible amount or the amount in respect of which recovery has ceased to be probable, is recognised as an expense rather than as an adjustment of the amount of contract revenue.

Recognition of expected losses

Provision is made for any expected contract loss as soon as it becomes probable, irrespective of the stage of completion of the contract.

The expected loss on completion is recognised immediately, after deducting where applicable any loss previously recognised. However, under the percentage of completion method the total loss is recognised in two stages:

- > the loss incurred at the reporting date is the proportion of the loss obtained by using the percentage of completion method. It is the proportion of the projected loss equal to the percentage of completion. The proportion of the projected loss is determined by the recognition of turnover and contract costs based on the percentage of completion;
- > the additional loss not yet incurred, determined as the difference between the total projected loss and that already incurred and recognised at the reporting date, is recognised as a provision for risks.

If after applying the percentage of completion method there are residual assets relating to costs already incurred (as in the case of work or services performed awaiting acceptance by the other party) a part of the outstanding loss is recognised as an impairment loss.

IV.2. Measurement when the outcome of the contract cannot be estimated reliably

Principle

No profit is recognised when the outcome of the contract cannot be estimated reliably. Therefore when the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of costs incurred.

Where in the following period it becomes possible to estimate reliably the outcome of the contract, a profit or loss is recognised in accordance with the requirements of paragraph IV.1.

Where the probable outcome is a loss, a provision may or not be recognised depending on whether it is possible to make a reasonable estimate based on various assumptions:

- > where a reasonable estimation is possible, using different possible assumptions, the loss is provided for based on the most likely outcome. Where it is not possible to determine the most likely outcome, the lowest amount in the range of possible outcomes is provided for and any additional risk is disclosed in the notes;
- > where a reasonable estimation is not possible, no provision for loss is recognised but the existence and the nature of the uncertainties are disclosed in the notes. In practice, it should be possible to estimate reliably the amount of the provision other than in exceptional circumstances.

Changes in accounting estimates

The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate (see Standard 14, “Changes in Accounting Policy, Changes in Accounting Estimates and the Correction of Errors”). The changed estimates are used in the determination of the amount of revenue and expenses recognised in surplus or deficit in the period in which the change is made and in subsequent periods.

V. RECOGNITION OF OTHER CONTRACTUAL ITEMS

Financial revenue and expense associated with the contract may be taken into account to the extent they arise from the application of the terms of the contract to material cash surpluses or deficits over all or part of the duration of the contract.

Financial revenue

Contract revenue includes:

- > direct or indirect financial revenue arising from the application of the terms of the contract to material cash surpluses over all or part of the duration of the contract,
- > exchange gains and gains from hedging transactions.

Financial revenue shall not be recognised immediately in the surplus or deficit of the period in which it arises. It is deferred until the outcome of the transaction is recognised (see below).

Financial expense

Financial expense is, depending on the type of contract, either recognised as expense immediately or deferred as a contract cost.

It is important to note that entities are only authorised to take out a loan in exceptional circumstances. In addition, the entity requires the authorisation of its governing body and supervisory authority to use this type of funding.

Contract expenses include the following expenses, which may be deferred:

- > financial expense arising from the application of the terms of the contract to cash deficits over the duration of the contract,
- > exchange losses and losses from hedging transactions.

Recognition of financial expense and revenue associated with long-term contracts

Three situations may be encountered over the life of a contract:

- > deferred financial expense without deferred financial revenue: the financial expenses that are part of the contract costs are recognised in the same way as other production costs,
- > deferred financial revenue without deferred financial expense: financial revenue is recorded in a deferral account until the outcome of the transaction is recognised,
- > deferred financial expense and deferred financial revenue: recognition differs according to whether there is cumulative net revenue or cumulative net expense since the beginning of the transaction. When there is cumulative net revenue, the surplus of revenue over expense is recorded in a deferral account until the outcome of the transaction is recognised or until the associated financial expense is recognised and set off against the revenue. When there is cumulative net expense, the revenue is not deferred and is set off against the financial expense recognised in work in progress (see above).

VI. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

VI.1. Position of the Standard as compared to Central Government Accounting Standards

There is no Central Government Accounting Standard on this subject.

VI.2. Position compared to the French General Chart of Accounts

This Standard is broadly compliant with general accounting principles.

However, the French General Chart of Accounts allows two accounting methods to be used for long-term contracts, irrespective of the outcome of the latter: the percentage of completion method (recommended method) and the completed-contract method. Both methods require the outcome to be estimated on conclusion of the contract and, where applicable, the recognition of a provision for any loss when this is the likely outcome.

Considering the materiality and duration of these transactions, this Standard only allows the percentage of completion method to be used in accounting for long-term contracts. Recognition using the completed-contract method is prohibited.


VI.3. Position compared to international accounting standards

The notion of long-term contract used in this Standard covers construction contracts as defined in IAS 11 “Construction Contracts” and IPSAS 11 “Construction Contracts”.

This Standard has overall requirements similar to those of IPSAS 11 “Construction Contracts”, which is itself based on IAS 11¹⁰.

Nevertheless, this Standard has a broader scope, covering in addition to construction contracts long-term service contracts of a commercial nature. However long-term contracts of a non-commercial nature and cost plus contracts, which are addressed by other Standards, are not within the scope of this Standard.

¹⁰ IFRS 15 “Revenue from Contracts with Customers” was published on 28 May 2014. It replaces IAS 11 “Construction Contracts” and IAS 18 “Revenue” and is applicable as from 1 January 2017, with earlier application authorised.



STANDARD 19

LONG-TERM CONTRACTS

Requirements

1. DEFINITION

Long-term contract

A long-term contract is a contract¹ or similar binding agreement:

- > with a long duration, where the time necessary to complete the contract covers at least two accounting periods,
- > specifically negotiated as a single project for the construction or production of an asset or the performance of services generally of a complex nature² in which the entity may act as a subcontractor, for the benefit of a third party.

Contract revenue

Contract revenue shall comprise:

- > the initial amount of revenue³ agreed in the contract,
- > variations in contract work or services, claims and incentive payments due by the other party, to the extent that it is probable they will result in revenue, and/or they are capable of being reliably measured.

Contract costs

Contract costs shall comprise:

- > costs that relate directly to the specific contract,
- > costs that are attributable to contract activity in general and can be allocated to the contract in a systematic and rational manner, and
- > such other costs that are specifically chargeable to the other party under the terms of the contract.

2. RECOGNITION

A contract is recognised according to the percentage of completion method.

¹ According to Article 1101 of the French Civil Code, a contract is an "agreement by which one or more persons make a promise to one or more other persons to give, to do or not to do something".

² The goods and services concerned are those which are closely interrelated or interdependent in terms of their design, technology, function or ultimate purpose as part of a single project.

³ Revenue that will be billed to the other party and recognised as turnover by the entity.

The percentage of completion method consists of recognising turnover and profit or loss from the contract by reference to its stage of completion. This method is applicable irrespective of whether the expected outcome is a profit or a loss.

It is necessary to distinguish two situations:

- > the outcome of the contract can be estimated reliably,
- > the outcome of the contract cannot be estimated reliably.

2.1. Measurement when the outcome of the contract can be estimated reliably

When the outcome of the contract can be estimated reliably, contract revenue and costs shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the long-term contract shall be recognised as an expense immediately.

Recognition of expected losses

Provision is made for any expected contract loss as soon as it becomes probable, irrespective of the stage of completion of the contract.

The expected loss on completion is recognised immediately, after deducting where applicable any loss previously recognised.

If after applying the percentage of completion method there are residual assets relating to costs already incurred, a part of the outstanding loss is recognised as an impairment loss.

2.2. Measurement when the outcome of the contract cannot be estimated reliably

No profit is recognised when the outcome of the contract cannot be estimated reliably. Therefore when the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of costs incurred.

Where in the following period it becomes possible to estimate reliably the outcome of the contract, a profit or loss is recognised in accordance with the requirements of paragraph 2.1.

Where the probable outcome is a loss

Where the probable outcome is a loss, a provision may or not be recognised depending on whether it is possible to make a reasonable estimate based on various assumptions:

- > where a reasonable estimation is possible, using different possible assumptions, the loss is provided for based on the most likely outcome. Where it is not possible to determine the most likely outcome, the lowest amount in the range of possible outcomes is provided for and any additional risk is disclosed in the notes;
- > where a reasonable estimation is not possible, no provision for loss is recognised but the existence and the nature of the uncertainties are disclosed in the notes.

3. RECOGNITION OF OTHER CONTRACTUAL ITEMS

Financial revenue and expense associated with the contract may be taken into account to the extent they arise from the application of the terms of the contract to material cash surpluses or deficits over all or part of the duration of the contract.

4. PRESENTATION

Assets and liabilities arising from long-term contracts are presented as separate line items in the balance sheet. Appropriate details are provided in the notes.

5. DISCLOSURES IN THE NOTES

The notes describe:

- > the methods used to determine the stage of completion of contracts in progress;
- > the amount of contract revenue recognised as revenue in the period;
- > the methods used to determine the contract revenue recognised in the period;
- > where the entity is authorised to borrow, the method used to allocate financial expense to contract costs, for each type of contract.

The notes include:

- > the amount of provisions for expected losses on completion and changes in the amount of the provision for the period;
- > where a reasonable estimation of the loss is not possible, the amount of the additional risk as compared to the lowest estimation of loss in the range of possible outcomes or the disclosure of the existence and nature of the uncertainties.

The entity discloses the following for contracts in progress at the reporting date:

- > the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;
- > the amount of advances received;
- > the amount of retentions.

Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract or until defects have been rectified. Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the other party. Advances are amounts of contract revenue received by the entity before the related work has been performed.

The entity shall present:

- > the gross amount due from other parties for contract work as an asset;
- > the gross amount due to other parties for contract work as a liability.

The gross amount due from other parties for contract work or services is the net amount of costs incurred plus recognised profits, less the sum of recognised losses and progress billings for all contracts in progress, for which costs incurred plus recognised profits to be recovered as contract revenue (less recognised losses) exceeds progress billings.

The gross amount due to other parties for contract work is the net amount of costs incurred plus recognised profits, less the sum of recognised losses and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognised profits to be recovered as contract revenue (less recognised losses).



STANDARD 20
ASSET FUNDING

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STANDARD 20 ASSET FUNDING

Introduction

I. BACKGROUND AND SCOPE

Public entities are formed in different circumstances and operate in a different way to private enterprises. Whilst private enterprises are funded by capital contributions from partners or shareholders, the funding sources for public entities reflect the public service mission for which they are formed.

Public entities operate mainly in a non-market environment and generally use public funding. This funding, described as “outside” funding in this Standard, is used for the acquisition or retention of intangible, tangible or financial assets. It generally consists of equity contributions or grants.

The Standard “Asset Funding” prescribes the accounting requirements for the sources of funding of intangible, tangible or financial assets. The accounting requirements for the funded intangible, tangible or financial assets are described in the relevant Standards.

The Standard does not deal with the funding of long-term contracts or of contracts for the provision of public services within the scope of Standard 19 “Long-Term Contracts” and Standard 18 “Contracts for the Provision of Public Services” respectively.

II. DEFINITIONS

Central Government *equity contributions* are initial or additional funding contributions. Equity contributions may be specifically allocated to an identified investment that will be recognised in the entity’s balance sheet.

Investment grants received are defined as funding received by the public entity in order to acquire or create fixed assets. They are a component of equity which is made up of “Central Government Funding” and “Other Funding”.

III. RECOGNITION AND MEASUREMENT OF ASSET FUNDING

III.1. Initial recognition

Entities do not have a share capital because of their specific legal status and the circumstances in which they are formed.

The relationship between the entity and its fund providers is reflected in the presentation of equity, which is broken down into Central Government Funding and Other Funding in the financial statements.

A second distinction is made between contributions associated with a specific asset and contributions not associated with a specific asset. The allocation of the funding is usually stipulated in a formal contract or administrative decision. In the case of Central Government funding, the entity allocates the funding to the specified asset after notification by the supervisory authority as part of the budget procedure. Where no allocation is specified in the formal award, the entity exercises judgment in allocating the funding to the relevant asset in its accounts.

III.2. Measurement at the reporting date

General accounting principles apply to funding associated with clearly identified assets, so that the portion of funding recognised as revenue is matched with depreciation or impairment expense (consumption of economic benefits or impairment loss) arising from the associated asset. The application of this general principle requires further clarification in two situations:

- > in the case of a non-depreciable asset that has not suffered an impairment loss, the total funding continues to be recognised in equity;
- > where an impairment loss is recognised, funding revenue is recognised in surplus or deficit for an amount (i) equivalent to impairment expense where the initial amount of allocated funding was equivalent to the initial value of the asset or (ii) proportional to impairment expense where the initial amount of allocated funding was less than the initial value of the asset.

IV. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

IV.1. Position of the Standard as compared to Central Government Accounting Standards

There is no equivalent Central Government Accounting Standard.

IV.2. Position compared to the French General Chart of Accounts

The presentation of equity in this Standard, which is broken down into Central Government Funding and Other Funding, is divergent from the French General Chart of Accounts. It is a requirement for entities with non-market activities using public funds to monitor funding by class of capital provider. The French General Chart of Accounts does not require the same distinction, as the share capital of business entities is made up of the capital contributions of the different shareholders. All shareholders in the same class have the same rights.

On the other hand, both this Standard and the French General Chart of Accounts allow the matching in surplus or deficit of funding revenue and expenses from funded assets. Consequently, revenue from investment grants and depreciation of the funded assets (acquired or produced) may be recognised in surplus or deficit at the same rate and over the same period of time. However, the French General Chart of Accounts requires grants for non-depreciable assets to be recognised in surplus or deficit over the period of inalienability of the asset or in ten instalments. This Standard, on the other hand, prohibits the recognition of a grant for non-depreciable assets through surplus or deficit. Therefore both the grant and the funded asset are recognised in the balance sheet.

Lastly, contrary to the French General Chart of Accounts, this Standard requires the matching principle to be applied to the recognition of funding, depreciation and impairment when an impairment loss relating to the funded asset is reversed. This requirement enables the level of equity to be restored.

IV.3. Position compared to international accounting standards

There is no equivalent international accounting standard on asset funding. The International Financial Reporting Standard, IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” defines the accounting principles applicable to grants used for asset funding in the private sector. IAS 20 requires grants related to assets, including non-monetary grants measured at fair value, to be presented in the balance sheet as deferred revenue or as a deduction from the carrying amount of the asset.

There is no IPSAS on asset funding, and no Standard equivalent to IAS 20.



STANDARD 20 ASSET FUNDING

Requirements

1. DEFINITIONS

The funding within the scope of this Standard includes:

- > in-kind funding representing consideration for assets transferred to the entity or for assets the title of which is transferred to the entity;
- > cash funding used for the acquisition, production or retention of intangible, tangible or financial assets.

Funding includes:

- > Central Government equity contributions used for asset funding which are effectively Central Government investment grants in cash;
- > in-kind contributions from Central Government;
- > investment grants from public entities, the European Union or private bodies (foundations, associations, etc.);
- > cash donations and bequests for funding investments;
- > in-kind donations and bequests.

2. INITIAL RECOGNITION AND MEASUREMENT OF FUNDING

2.1. Initial recognition

Central Government Funding and Other Funding are recognised as separate line-items in equity.

These two line-items are broken down into contributions associated with a specific asset and contributions not associated with a specific asset.

Funding received is initially recognised within equity as funding associated with a specific asset or not associated with a specific asset, in accordance with the terms of the formal award or with the purpose of the grant.

In the case of an in-kind contribution, the amount recognised in equity is measured at the same amount as the contributed asset.

2.2. Measurement at the reporting date

The measurement basis for funding at the reporting date is different according to whether or not it is associated with a specific asset.

2.2.1. Funding associated with an asset

Where the funding is associated with an identified asset, the funding and the asset are matched for accounting purposes.

This principle is applied as follows to depreciable and non-depreciable assets:

- > in the case of a depreciable asset, funding is recognised as revenue through surplus or deficit at the same rate and over the same period of time as depreciation expense arising from the funded asset;
- > in the case of a non-depreciable asset, funding continues to be recognised in equity at the same amount as on initial recognition.

Where an impairment loss is recognised for either of these classes of asset, funding revenue is recognised in surplus or deficit for an amount equivalent or proportional to the amount of impairment. Where an impairment loss is reversed because of an increase in the asset value, the parallel reversal is made for funding which is reconstituted by reversing the amount of funding revenue initially recognised through surplus or deficit.

The portion of funding revenue recognised in surplus or deficit to match depreciation, impairment or the disposal of the funded asset is presented in the same category (operating or financial) as the impairment expense. Funding reconstituted as a result of the reversal of an impairment loss is also matched in this way.

2.2.2. Funding not associated with an asset

Funding not specifically associated with an asset continues to be recognised in equity at the same amount as on initial recognition.

2.3. Derecognition of the asset

When a specifically funded asset is derecognised such as on disposal or scrapping, the associated funding is recognised in surplus or deficit as follows:

- > for the same amount as on initial recognition where the asset is non-depreciable and has not been impaired;
- > for an amount net of the portion of revenue already recognised in surplus or deficit where the asset is depreciated or impaired.

3. DISCLOSURES IN THE NOTES

The notes present the characteristics of the main sources of funding used by the entity during the period and of outstanding funding. A statement of asset funding showing the opening balance at the beginning of the reporting period, the movements for the period and the closing balance at the reporting date is also presented in the notes.



**STANDARD 21
GREENHOUSE GAS
EMISSION
ALLOWANCES**

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STANDARD 21

GREENHOUSE GAS EMISSION ALLOWANCES

Introduction

I. GREENHOUSE GAS EMISSION RIGHTS TRADING SCHEMES

I.1. International background

The Kyoto Protocol, adopted on 11 December 1997 as part of the United Nations Framework Convention on Climate Change, was the first stage in introducing an international carbon market with a view to reducing greenhouse gas emissions. Alongside public policy recommendations and measures in favour of sustainable development, it provides the Parties, with different market mechanisms (emission rights trading schemes) and flexibility (Kyoto credits¹), to enable an effective and global reduction of pollution.

The objective is to fix a price for using a common universal commodity by setting up a market for trading emission rights; the latter resource which was previously unlimited and freely accessible at no charge is henceforth traded in order to reduce greenhouse gas emissions. The scheme works on a “cap and trade” basis whereby a cap or limit is set on the total volume of greenhouse gas emissions allowed to participants, and this cap is converted into tradable emission rights. As a result, a State that is a party to the protocol, with emissions below the determined level may sell the surplus rights to other States which have not met their emission reduction targets.

The Co₂ emission right is the instrument underlying this international policy of the fight against climate change which enables public authorities to regulate economic activities that generate greenhouse gas whilst maintaining economic development and employment. Each emission right represents the equivalent of a tonne of Co₂.

In order to maintain the incentive for reducing emissions and the overall balance of the scheme, the rights traded are limited to 10% of the total emission rights initially allocated under the Kyoto Protocol, these 10% represent:

- > emission rights allocated to polluting site operators, referred to below as participants,
- > emission rights arising from diffuse sources which are not directly attributable to polluting entities (emissions in sectors such as transport, construction, etc.).

The remaining 90% constitute a reserve of emission rights not available for trading.

At the Doha conference on climate change in December 2012, an extension of the Kyoto Protocol was approved in principle for the period from 2013 to 2020. The terms of the new Protocol are set to be decided at the conference “Paris Climat 2015”.

¹ Kyoto credits are similar to emission allowances and are subject to the same accounting treatment.

I.2. European background

At European level, the international policy of fighting climate change led to the introduction with effect from 1 January 2005 of the EU ETS² which applies to the 10% tradable portion of total emission rights in accordance with the Kyoto Protocol.

The European emission allowance trading scheme has been developed over the three following phases.

I.2.1 Pilot period between 2005 and 2007

This pilot period was instrumental in determining a price for carbon as well as the volume of national emission allowances to be allocated to participants. The founding text of the EU ETS is Directive 2003/87/EC³.

I.2.2 Commitment period 2008-2012

The EU ETS provided for allocation of emission allowances free of charge to participants by Member States under the supervision of the European Commission. In France, participants were identified in the National Allocation Plan (NAP). The latter allocated emission allowances under an administrative authorisation to emit greenhouse gas. The participants had to surrender allowances equivalent to their actual emissions. For the period 2008-2012, these emission allowances were recorded in a national register kept by the Caisse des Dépôts, also in charge of checking the surrender of allowances by participants.

Allowances for diffuse emissions continued to be covered exclusively by the Kyoto protocol (not included in the NAP) and were recorded and monitored in an International Transaction Log.

I.2.3 Commitment period 2013-2020

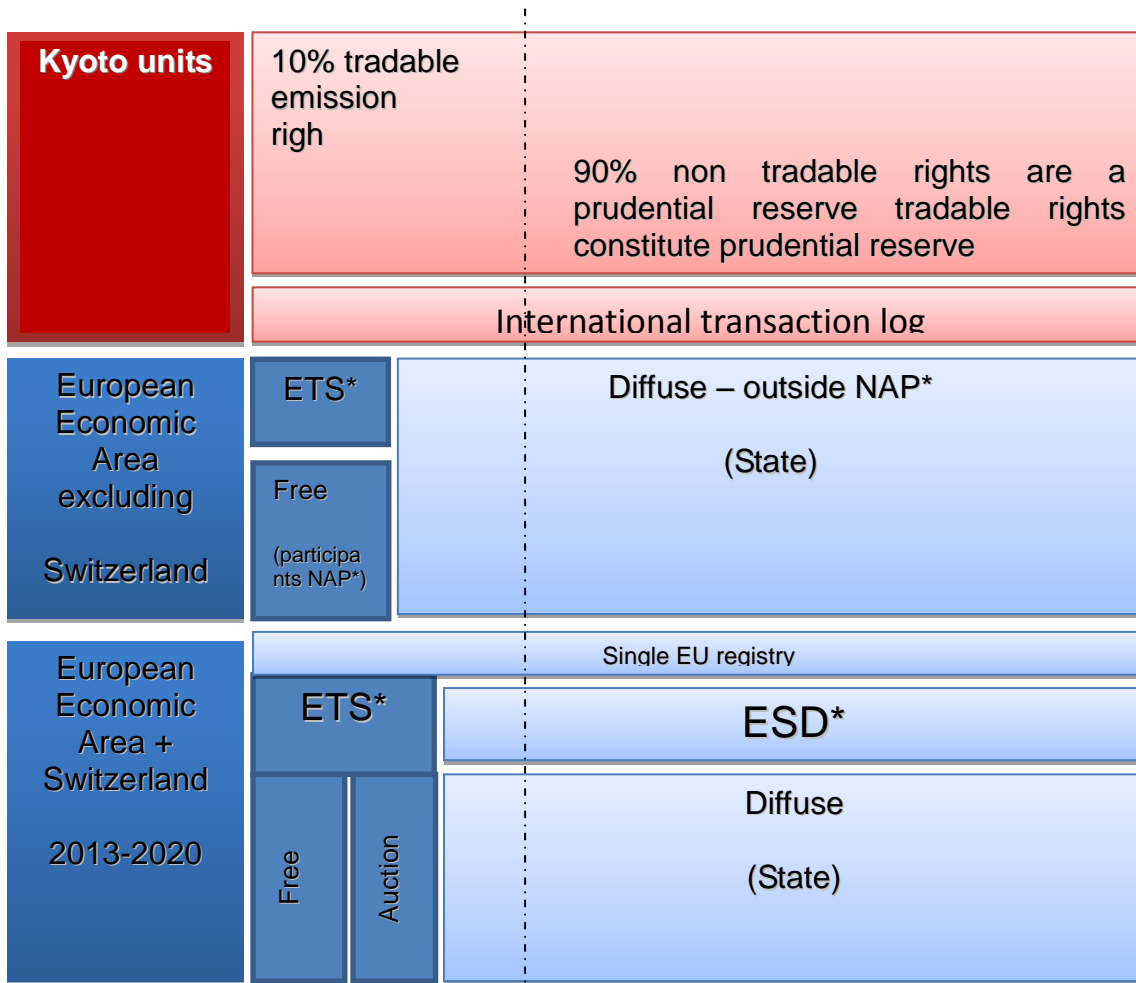
This period represents a consolidation of the ETS and reinforces the role of the European Commission in the allocation system including the recording of emission allowances in a single EU registry. In addition, a second mechanism applicable only to the State, known as the ESD (*Effort Sharing Decision*⁴) was introduced at European level to address diffuse emissions.

² European Union Emission Trading Scheme (EU ETS).

³ Directive 2003/87/EC of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community. The latter has since been amended by several other Directives and Regulations.

⁴ Decision n°406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020.

The interaction of Kyoto and European mechanisms and the new features introduced by the European Union in the period 2013-2020 are summarised in the following diagram:



* ETS: Emissions Trading System; NAP: National Allocation Plan; ESD: Effort Sharing Decision

It should be noted that the State intervenes in its dual function of policy maker against climate change and as a participant that receives allowances for operating polluting sites.

Entities within the scope of this Standard are only concerned in their role as participants where they operate polluting sites.

In France, these changes have the following consequences for participants:

- > gradual reduction of the amount of free emission allowances allocated,
- > introduction of auctioning as a means of procuring emission allowances for participants, in particular for electricity producers. This system is intended to develop and eventually replace free allowance allocation. In this way a primary market is emerging as opposed to the secondary market⁵ on which auctioned or free emission allowances are traded,

⁵ For the record, these are regulated markets – Title VII of the general regulations of the AMF for 2014, “Regulated markets for emission allowance trading”.

which has a major structural role in that it acts as a price signal⁶. Broad participation is ensured by the use of a common auction platform; Member States may “opt out” of the common platform, provided that they select platforms included on the list in the appendix to Regulation 1031/2010/UE.

Certain aspects still require clarification at international and European levels for the periods 2013-2020 and post 2020, including the following:

- > extension of the Kyoto Protocol beyond 2020,
- > the possibility of carrying forward unused emission allowances held after 2020,
- > the future of surplus emission allowances held at the end of the period 2008-2012.

II. DEFINITION OF GREENHOUSE GAS EMISSION ALLOWANCES

There is no common definition of greenhouse gas emission allowances at European level because of the specific characteristics of each Member State. The following approaches have been adopted in France:

- > The Environmental Code defines emission allowances as tradable personal property⁷.
- > The creation of a new legal instrument and the administrative authorisations as proposed in the PRADA Report, would require implementation at European Community level.
- > The European financial market authorities treat allowances as financial instruments to enable trading to be regulated and monitored; conversely, emission allowances do not meet the accounting definition of a financial instrument as they do not confer upon their holder the right to receive cash or equity instruments.
- > On 4 October 2012, the Accounting Standards Authority (Autorité des normes comptables or ANC) published Regulation n°2012-03 relating to the accounting treatment of emission allowances by private sector participants following the introduction of the auctioning system. This regulation introduces the notion of a raw material of an administrative nature that is consumed in the production process⁸.
- > The classification as a tax has been rejected: States do not fix the price of emission allowances for trading between participants; the latter is fixed by the market and may vary over time.

III. CHARACTERISTICS OF EMISSION ALLOWANCES FOR THE PERIOD 2013-2020

III.1. Emission allowances allocated free of charge

The list of operators to which greenhouse gas emission allowances are allocated free of charge is published by ministerial order; this list identifies the polluting sites operated directly by the State.

⁶ PRADA report dated April 2010 : “The regulation of CO2 markets”.

⁷ “Code de l’environnement” – Article L.229-15-1.

⁸ See §3.1 of the introductory note to ANC Regulation n° 2012-03 of 4 October 2012.

These allocated emission allowances are recorded in the single European registry and may be traded on attribution.

They have a positive economic value for the entity, either as a means of discharging their obligations with respect to greenhouse gas emissions or because they can be sold. They have no physical substance. On the other hand, the emission right associated with them is considered to be consumed in the operating process of the polluting plant. They are generally held for less than an accounting period. The economic benefits which they provide are limited in time.

There is a penalty for non-compliance with the annual obligation amounting to 100€ for each tonne of Co₂ emissions for which the participant has not surrendered the equivalent emission allowance. This payment does not however discharge the participant's liability to surrender the missing emission allowances.

The ETS is a system based on the allocation and surrender of emission allowances. The surrender obligation provides the participant with an incentive to reduce its production of greenhouse gas. This obligation is the consideration given for receiving free emission allowances. Consequently, emission allowances are recognised at nil value.

III.2. Auctioned emission allowances

The period 2013-2020 is one of reinforcement of the ETS with a view to obtaining a reduction of 20 % of greenhouse gas emissions in 2020 as compared to 1990, pursuant to the Climate and Energy package adopted by the European Commission in 2009. The system of ETS allocation free of charge is intended to make way for a system of acquisition of emission allowances by participants through an auctioning procedure.

The amount of auctioned emission allowances for the period 2013-2020 is the difference between the total amount of emission allowances, representing the total amount of participants' emissions, and the amount of allowances allocated to the latter free of charge over the period. The amount may vary in function of the number of sites opened or closed.

Any participant holding an operator's deposit account in the European registry, acting on its own behalf, may apply for admission to bid in the auctions⁹. Participants that do not receive all their emission allowances free of charge must satisfy their needs via the auction procedure (in particular electricity producers).

Emission allowances acquired through the auction procedure have a positive economic value as a means of discharging the entity's obligations with respect to greenhouse gas emissions: the allowances must be surrendered as part of the participant's compliance obligations. In addition, these emission allowances may also be sold. After purchase, auctioned emission allowances may be freely traded by market participants.

There is a penalty for non-compliance with the annual obligation amounting to 100€ for each tonne of Co₂ equivalent emissions for which the participant has not surrendered the corresponding emission allowance. This payment does not however discharge the participant's liability to surrender the missing emission allowances.

⁹ Regulation 1031/2010/EU of 12 November 2010 on the timing, administration and other aspects of auctioning greenhouse gas allowances pursuant to Directive 2003/87/EC, article 18.

IV. RECOGNITION OF THE SURRENDER OBLIGATION

Two views of the accounting treatment of the annual emission allowance surrender obligation for public sector participants were examined:

- > View 1: the surrender obligation only gives rise to a liability when the entity's actual emissions are greater than the allowances it holds, so that it has to purchase allowances on the market;
- > View 2: the surrender obligation generates a liability for the entity progressively as emissions occur.

View 1 was adopted on the grounds that the Constitutional Bylaw for Budget Acts (LOLF) and the Order of 7 November 2012 on budgetary management and public accounting requirements stipulate that business accounting rules apply unless there are specific features of public policy which justify a different treatment.

V. PERIOD 2008-2012: TREATMENT IN THE ACCOUNTS OF PUBLIC ESTABLISHMENTS

During the period 2008-2012, emission allowances were accounted for by public sector participants, according to instructions based on the opinion 2004-C of 23 March 2004 of the Urgent Topic Committee of the National Accounting Council (CNC): emission allowances received were recognised in intangible assets at their undepreciated cost and impairment recognised, where applicable, to take account of any decrease in the value of the allowances.

VI. POSITION OF THE STANDARD AS COMPARED TO OTHER SETS OF STANDARDS

In France, the ANC has provided guidance on the accounting treatment of emission allowances in the financial statements of private sector participants in Regulation n°2012-03 of 4 October 2012. In application of the provisions of the Constitutional Bylaw on Budget Acts and the Order of 7 November 2012 on budgetary management and public accounting requirements that stipulate that business accounting rules apply to the accounts of entities except where identified specific features of its action justify otherwise, and given that no such features have been identified, the accounting requirements of the private sector apply to public sector participants.

At international level, the latest discussions of the IASB¹⁰ go back to November 2010; at the end of 2014 the project appears to be on standby. The IPSASB¹¹ has included a project in its Work Program and approved the outlines of the project in September 2013.

The accounting requirements applicable to Central Government in its role as participant operating polluting sites¹² are the same as those in this Standard.

¹⁰ IASB: International Accounting Standards Board.

¹¹ IPSASB: International Public Sector Accounting Standards Board.

¹² Central Government Accounting Standard 21 *Greenhouse Gas Emission Allowances*.



STANDARD 21 GREENHOUSE GAS EMISSION ALLOWANCES

Requirements

1. SCOPE

1.1. Scope of transactions

This Standard applies to greenhouse gas emission allowance trading transactions in application of systems introduced by the Kyoto Protocol, and in particular by the introduction of ETS¹ at European level for the period 2013-2020.

It prescribes the accounting treatment for emission allowances and participants' obligations under these schemes.

1.2. Different emission allowance allocation systems

The characteristics of the following emission allowance allocation systems are explained in the introduction to this Standard.

1.2.1. Emission allowances allocated free of charge

Free emission allowances have the following characteristics:

- > Positive economic value for the participant;
- > Annual surrender by participants to the European Commission of a volume of emission allowances corresponding to their actual emissions subject to a fine that does not discharge their compliance obligation;
- > Emission allowances are freely tradable by participants on allocation ;

1.2.2. Auctioned emission allowances

Participants that are not allocated all their emission allowances free of charge (in particular energy producers) are obliged to acquire emission allowances through the auction system.

Auctioned emission allowances have the following characteristics:

- > Positive economic value for participants;
- > Annual surrender by participants to the European Commission of a volume of emission allowances corresponding to their actual emissions subject to a fine that does not discharge their compliance obligation;

¹ Trading transactions within the scope of the Standard include Kyoto credits (see Introduction, § I.1. International background).

- > Emission allowances auctioned on a regular basis, according to a pre-determined timetable via a common European platform; after the initial auction transaction, the emission allowances are freely tradable.

2. INITIAL RECOGNITION OF EMISSION ALLOWANCES FOR THE PERIOD 2013-2020

2.1. Emission allowances allocated free of charge

These emission allowances meet the definition of an asset for the participating entity: they may either be used for discharging the entity's obligations in respect of greenhouse gas emissions or sold. They therefore represent an economic resource controlled by the entity.

Emission allowances allocated free of charge are in theory only used to meet the surrender obligation arising from actual emission levels. Nevertheless, it may be necessary for the participating entity to become actively involved in managing emission allowance transactions, without actually engaging in trading.

The emission right associated with an emission allowance is considered to be consumed in the operating process of the polluting entity. It is held for a short period, often for an accounting period. As a result emission allowances are classified as inventory.

Emission allowances allocated free of charge are attributed each year on the basis of the authorised volume of greenhouse gas and in consideration for the obligation to surrender allowances corresponding to the actual emissions for the same year. Consequently, emission allowances received by the participating entity are initially recognised in inventory at nil value.

2.2. Auctioned emission allowances

Emission allowances purchased at an auction meet the definition of an asset for the participant: they may either be used for discharging the entity's obligations in respect of greenhouse gas emissions or sold. They therefore represent an economic resource controlled by the participant and have the characteristics of inventory.

The acquisition cost of emission allowances purchased at auctions includes purchase cost and costs directly attributable to acquisition, such as commissions paid to financial intermediaries.

Forward purchases of emission allowances are accounted for, on the basis of the terms of the contract, in accordance with the Standard on financial instruments.

3. SUBSEQUENT MEASUREMENT

As emission allowances allocated free of charge are measured at nil value on initial recognition in the balance sheet, the following reporting date measurement requirements only apply to emission allowances acquired over the counter or in an auction.

Emission allowances are classified as inventory and are therefore measured at the reporting date according to the requirements for inventories, including recognition of impairment when their value has decreased.

4. RECOGNITION OF THE SURRENDER OBLIGATION

The participant may receive a free allocation of emission allowances or may be subject to the auction procedure; the participant may need to acquire emission allowances through the auction system where the free allocation does not cover its actual greenhouse gas emissions.

Emission allowances have the characteristics of inventories and are consumed as greenhouse gas is released.

The participant has an annual obligation to surrender greenhouse gas emission allowances. This obligation only gives rise to a liability for the participant when actual emissions are greater than the corresponding allowances held. It gives rise to the obligation to purchase emission allowances. The liability is settled by the purchase of emission allowances.

When emission allowances are traded, the resulting gains and losses are recognised in surplus or deficit.

If the participant does not comply with its annual surrender obligation, it recognises the penalties payable, which do not discharge its surrender obligation, according to the requirements of the Standard on non-financial liabilities.

5. DISCLOSURES IN THE NOTES

Emission allowance trading schemes and the related accounting treatment are explained in the notes. Disclosures include:

- > a description of the different schemes and the responsibility of the participant under those schemes;
- > changes as compared to the previous period, only for the year changes occur;
- > assumptions on which the measurement of the (surrender obligation) liability is based.



**STANDARD 23
DEVELOPMENT
ACTIVITIES**

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STANDARD 23 DEVELOPMENT ACTIVITIES

Introduction

I. BACKGROUND AND PURPOSE OF THE STANDARD

Within the meaning of Article L.300-1 of the Town Planning Code¹, a development activity covers a range of operations to implement an urban project or local housing policy, to arrange for maintaining, extending or hosting economic activities, to produce collective infrastructure, to foster the expansion of certain activities and to enhance heritage assets².

Broadly speaking, such an activity is comprised of the following stages: development project design, lot acquisition and servicing, conducting the works, public infrastructure rollout, marketing to developers and transfer of public infrastructure to local authorities.

Development activities are carried out in geographic areas that may be very large and take place over long periods of between eight and 25 years on average.

Unlike an industrial activity, in which the products that are manufactured and sold are standardised, a development activity involves highly diverse actions. Development activities are subject to item-related sales, i.e. sales of surface areas or construction rights that are independent yet connected to the same scope³. This scope encompasses the assets to be offered for sale for valuable consideration, as well as sundry public developments and infrastructure that are not marketed but which are beneficial to the assets sold for valuable consideration.

The main accounting issues that require special stipulations are the methods for recognising the revenue and margins of development activities.

The purpose of the Development Activities Standard is to address these issues, and, at the same time, to set out the accounting treatment of the related inventories.

¹ Article L.300-1 of the Town Planning Code (excerpt): “*The purpose of development actions or activities is to implement an urban project, a local housing policy, to arrange for maintaining, extending or hosting economic activities, to foster the expansion of leisure and tourist activities, to produce collective infrastructure or research or higher education premises, to tackle insalubrity and unfit or dangerous housing, to allow for urban regeneration, to preserve or enhance developed or undeveloped heritage assets and natural spaces...*”.

² Public development establishments are referred to in Article L.321-14 of the Town Planning Code.

³ The standard uses the expression “project” to define the accounting scope.

The Standard lays down two special provisions to best reflect the specific nature of development activities:

- > One on inventory measurement,
- > The second relates to the recognition of the liability in light of the conceptual framework of public entities (in respect of the circumstances outlined in section 2.2.3. “Inventory withdrawals” of the requirements).

II. SCOPE

Development activities that are included in the Standard’s scope:

- > are carried out by public entities,
- > at their initiative or pursuant to a concession agreement,
- > and which are subject to individual project monitoring according to the terms and conditions of the Standard,

Other diverse activities, that are unrelated to the development activity, may be carried out by the entity at the same time: land piggybacking, rental management, management of heat and cold distribution network, etc. In such cases, these activities shall comply with the provisions of this manual’s other standards.

III. PARTICULARITIES OF DEVELOPMENT ACTIVITIES

Despite certain common features, such as duration and complexity, development activities differ from activities covered by Standard 19 “Long-Term Contracts”.

III.1. Development activities differ from long-term contracts as defined by Standard 19

Standard 19 “Long-Term Contracts” defines a long-term contract as “a contract⁴ or similar binding agreement:

- > with a long duration, where the time necessary to complete the contract covers at least two accounting periods,
- > specifically negotiated as a single project for the construction or production of an asset or the performance of services generally of a complex nature⁵, in which the entity may act as a subcontractor, for the benefit of a third party.

In this case, the entity has a right to contractual revenue to the extent the work performed is compliant with the terms of the contract”.

As a result, with long-term contracts, performance of contractual obligations covers the duration of production of the asset or performance of the service.

⁴ According to Article L.1101 of the French Civil Code, a contract is an “agreement by which one or more persons make a promise to one or more other persons to give, to do or not to do something”.

⁵ The goods and services concerned are those which are closely interrelated or interdependent in terms of their design, technology, function or ultimate purpose as part of a single project.

Conversely, with development, sales to third parties concern surface areas or construction rights. Performance of contractual obligations is sporadic and, moreover, the recognition of sales revenue does not raise the same issues as for contracts for which performance is staggered over time.

III.2. Development activities call for special recognition of inventories

With long-term contracts concerning the construction of an asset, Standard 19 clarifies the revenue that the entity is entitled to recognise in respect of work carried out in compliance with its contractual obligations.

Conversely, with development activities, the problem is not so much identifying the revenue to be recognised – it results from the sale instrument that establishes that the revenue has been acquired – but determining the cost of the underlying sold asset.

Inventories are comprised of assets controlled by a public entity and earmarked for sale or distribution free-of-charge or for a symbolic price, in the normal course of that entity's activity.

Under ordinary law, these assets, which are non-fungible by nature, should be specifically identified to enable the cost to be determined. Due to the specific features of development activities, it would be more relevant to use an accounting unit relating:

- > not to each asset earmarked for separate sale (such as a land plot to be sold to a property developer),
- > but to a broader scope corresponding to a consistent whole made up, accordingly, of land plots for sale, roadways, offices, housing units and public infrastructure.

Consequently, for a given scope, the inventory cost includes both costs that are directly attributable to a component to be sold for valuable consideration and other costs, in particular those concerning public infrastructure, that generally benefit a number of components.

III.3. Definition of a project: accounting unit

To monitor their development activities, entities use the concept of a “project” which represents the accounting unit.

A project covers standardised geographic and time scales that are established by the entity to meet its management requirements.

Each project includes a set of property acquisitions, works and services for which the entity expects to receive revenue from customers and/or subsidies from public entities.

Projects allow for the best possible monitoring of the percentage of physical and financial completion of development activities by the entity's management.

Each project is subject to an end-of-project forecast.

The definition of a project laid down by the Standard should provide a picture of the entity's management methods. The Standard also contains conditions to prevent changes in the scope of projects from arbitrarily affecting accounting income.

This concept of “project” has been applied by public development establishments since publication of Regulation M9-4⁶ of 4 October 1993, and this Standard provides a more exact definition.

III.4. Special provisions to measure inventory withdrawals on the reporting date

When inventories are sold, ordinary law accounting provisions require that their book value be recognised as expenditure for the period during which the corresponding revenue is booked.

With development activities, measuring inventory withdrawals to be recorded simply on the basis of costs that have already been incurred would cause expenditure, and therefore margins, to vary significantly, according to the time of sale. This is due to the fact that development expenses are not linear and the existence of additional costs such as those related to producing public infrastructure.

Usually, the volume of expenses is not proportional to that of revenue during the development period. As a rule, development expenses are proportionally higher than commercial revenue during the first years of the development activity. On the odd occasion, revenue may be in advance of expenses. There is no doubt that works that are staggered over several years are beneficial for all sales made at project level.

In light of the foregoing, this Standard sets out a special method for recognising and measuring inventory withdrawals and stipulates that the latter should factor in past and future costs (to wit, all projected costs for the planned development). This special treatment is based on a calculation of the percentage of completion of the project which allows the margin level to be reflected in the accounts in proportion to its progress.

Besides methods based on physical completion, there are a number of options for determining the percentage of completion of a project. Only the third method is used for this Standard:

> Expenses-based calculation:

The advantage of percentage of completion based on expenses incurred is that it is aligned with the project’s physical completion. The downside is that expenses incurred by an entity are usually higher at the outset of a project. Choosing percentage of completion based on expenses would mean recognising margins that are relatively larger at the start of a development project, i.e. at a time when the probability of a gap between productions and forecasts is highest.

> Sales-based calculation:

The calculation of percentage of completion based only on sales revenue has been excluded as it does not provide an adequate picture of the business model for development activities which is based on funding provided not only by sales but also by subsidies.

> Sales- and subsidies-based calculation:

As subsidies received from partner local authorities or other public entities contribute to a project’s financial equilibrium just as much as sales for valuable consideration, the Standard requires percentage of completion to be determined on the basis of all revenue (sales and subsidies).

⁶ Implementation of the Budget and Accounting Regulation for the public development establishments of new towns.

Land received free-of-charge by the developer also contributes to a project's financial equilibrium and has the nature of a subsidy. On the date the contribution is made, the land is recognised in inventories at its market value, as a counterpart to revenue⁷ for the accounting period.

As a result, the percentage of completion method used for the Standard is calculated as follows: aggregate of revenue acquired at the reporting date/aggregate of forecasted end-of-project revenue.

III.5. Recognition methods

The foregoing choices have the following effects:

- > The accounting unit for determining the inventory acquisition cost is the project.
- > Sales revenue is recognised when it is acquired.
- > The aggregate margin recognised at the reporting date of an accounting period corresponds to the forecasted end-of-project margin⁸, in relation to the percentage of completion of acquired revenue.
- > Updating the end-of-project forecast and the percentage of completion at each reporting date determines the amount of inventory withdrawals and, in certain cases, causes an additional liability representing commitments made in respect of uncompleted works to be recognised.
- > On the reporting date, the inventory item's value on the balance sheet is a calculated amount. It relates to the proportion of the inventory acquisition cost that exceeds the amount of inventory withdrawal expense depending on the revenue completion rate.

III.6. Another excluded accounting model

The scenario in which the entity waits until the project is completed to recognise turnover and margin has been excluded as, although it may appear conservative:

- > it discounts the impact of completed sales⁹ on the entity's income for the accounting period; and
- > it does not reflect the entity's performance levels for the accounting period.

III.7. Reliability of forecasts

With the accounting model put forward by the Standard, the entity's income for the accounting period is directly contingent on the forecasted end-of-project income. As a result, it must be buttressed by reliable forecasts.

⁷ In such cases, Standard 20 "Asset Funding" is not applicable.

⁸ The margin is the difference between the sale price and the measurement of the corresponding inventory withdrawal plus the additional liability if the revenue completion rate is higher than that for expenses. See provisions on liabilities for uncompleted works.

⁹ Meaning firm sales, for which all conditions have been met.

The Standard makes recognition of the income from a project (or the constituent elements of a project) conditional on the existence of a reliable end-of-project forecast. However, it does not put forward a quantitative threshold, nor exact date, nor specific event after which forecasts would be considered reliable. Instead, it defines what is meant by the reliability of a forecast and lays down the relevant conditions.

In practice, the reliability of forecasts depends on procedures that:

- > enable the scope of a project to be outlined,
- > concern the methods for determining “end-of-project forecasts”,
- > frame and document changes to the scope and financial projections.

Rollout of these procedures requires conservative estimates to be made in conditions of uncertainty. Consequently, assets or revenue are not over-valued and liabilities or expenses are not under-valued. This conservative approach, within the meaning of the conceptual framework for public accounts, ensures compliance with the accounting information neutrality requirement.

If there is no reliable forecast, the Standard stipulates that no inventory withdrawal is recognised at project level. If revenue has been booked, a provision for risks must be recognised, as a conservative measure, to flag up the uncertainty surrounding the forecasted end-of-project margin, and to set against the corresponding revenue.

IV. RECOGNITION

IV.1. Recognition of sales at project level

Sales made by the entity comply with the provisions of Standard 4 “Revenue” of this manual.

IV.2. Recognition of subsidies

Subsidies received by a developer comply with the provisions of Standard 4 “Revenue” of this manual.

IV.3. Recognition of inventories

This Standard contains three differences compared to the provisions of Standard 8 “Inventories”:

- > The accounting unit for determining the inventory acquisition cost is the project.
- > The inventory acquisition cost includes all the costs incurred to bring the inventories to their present location and condition, excluding staff expenses. The latter are excluded as it is impossible to reliably estimate projected staff expenses for the entire duration of the project.
- > When an inventory item is sold, the inventory withdrawal to be recognised as expenses is a calculated expense.

The requirements stipulate the items that are included in inventory costs and those that are excluded.

IV.4. Atypical percentage of completion of expenses and revenue

As mentioned above, with development activities, the costs incurred and the sales are staggered. There are two scenarios: the first, and the most frequent, relates to a project for which the costs are relatively higher at the outset of the project and where sales are made at the end of the project; the second reflects the opposite situation.

IV.4.1. Expenses in “advance”

With a project, when the expense completion rate is higher than the revenue completion rate, the amount of the inventory withdrawal to be recognised as expenses following a sale equals the revenue completion rate applied to the aggregate inventory acquisition cost of the end-of-project forecast (EPF).

	Accounting period	% EPF	EPF
Revenue	20	20%	100
Inventory acquisition cost	40	50%	80
Calculated inventory withdrawal expense	$16 = 80 \times 20 / 100$		
Margin (revenue – calculated inventory withdrawal expense)	4		20
Inventory at the end of the accounting period	$24 = 40 - 16$		

IV.4.2. Revenue in “advance”: recognition of a liability for uncompleted works

With a project, when the expense completion rate is less than the revenue completion rate, measurement of the inventory withdrawal using the percentage of completion method no longer adequately reflects the margin forecasted in the financial statements for the accounting period.

In this case, an additional liability must be recognised so that, at project level, the margin (adjusted for this additional liability) in respect of sales for the accounting period is the same as the margin rate of the end-of-project forecast.

This additional liability is booked to provisions for risks and liabilities.

	Accounting period	% EPF	EPF
Revenue	20	20%	100
Inventory acquisition cost	4	5%	80
Calculated inventory withdrawal expense capped at the value of inventories	4		
Total expenses in advance (80*20%)	16		
Additional liability (16-4)	12		
Margin (revenue – calculated inventory withdrawal expense)	4		20
Inventory at the end of the accounting period	$0 = 4-4$		

IV.5. Provisions for losses on completion

The specific nature of development activities is reflected by the fact that the risk of loss on completion of a project may be reduced by altering the content of the works to be carried out and/or by adjusting the planned sales programme for this project.

Nevertheless, when an entity has due grounds for recognising a positive margin for a project, on the basis of end-of-project forecasts that have been approved by management, it must take the same action when the projected margin is negative. When the end-of-project forecast points to a negative margin, this leads to the booking of a provision for risks for the entire forecasted loss.

	Accounting period	% EPF	EPF
Revenue	20	20%	100
Inventory acquisition cost	40	33%	120
Calculated inventory withdrawal expense	$24 = 120*20/100$		
Margin (revenue – calculated inventory withdrawal expense)	-4		
Additional loss on completion	-16		
Total margin for the accounting period	$-20 = -4-16$		
Inventory at the end of the accounting period	$16 = 40-24$		

V. DISCLOSURES IN THE NOTES

The balance sheet and income statement of a public development establishment show the balances and earnings from a large number of projects with very different durations and scales.

To ensure that the financial statements are understandable and report on the progress of the development activity, the Standard requires the following to be presented:

- > Information explaining how the accounting income for the period was calculated and its relation to the end-of-project forecasts.
- > Specific information on changes during the accounting period, in particular, variations in the scope of projects and their end-of-project forecasts, which have a substantial impact on the production of the income for the accounting period.



STANDARD 23 DEVELOPMENT ACTIVITIES

Requirements

1. DEFINITIONS

1.1. General definitions

A **project** is a scope of intervention that is defined by the entity and used as the basis for monitoring its activity, issuing forecasts and generating income.

An **end-of-project forecast** is the formal expression of the aggregate expenses and revenue allocated to the project from beginning to end.

A **reliable end-of-project forecast** draws on reasonable assumptions that have been approved by management, and which will probably turn out as projected.

The **revenue completion rate** is obtained from the following ratio: aggregate of revenue acquired at the reporting date/aggregate of forecasted end-of-project revenue.¹

1.2. Conditions

1.2.1. Conditions concerning project identification

A project's constituent elements must be consistent in terms of geography, timing and content owing to the prior definition of a works schedule.

Projects' features must be relatively stable. As a result, the elements or timeline do not change significantly during a project's duration.

1.2.2. Conditions concerning forecast reliability

A reliable end-of-project forecast meets the following conditions:

- > The forecast is based on reasonable assumptions
A reasonable assumption is one that corresponds to the best estimate to date and for which there is a strong probability that it will be achieved.
- > Forecasts comply with the decisions and commitments made by the entity
- > Forecasts are updated at least once a year on the basis of past achievements and anticipated changes in management of the project

¹ The aggregate end-of-project revenue is the total of revenue acquired at the reporting date and additional revenue forecasted during the remaining term of the project.

- > Management verifies the reasonable nature of assumptions on a regular basis and examines and explains the deviations between the forecasted and actual situations. It also takes account of all relevant facts and circumstances (impact of its own decisions, market-related effects, consequences relating to the general policies of partner local authorities, etc.).

2. INITIAL RECOGNITION

2.1. Revenue that can be attributed to the project

Revenue relating to a project is recognised upon acquisition.

- > Sales revenue is comprised of the proceeds of land sales, property sales or construction right sales. If the sale includes conditions precedent, the revenue is recognised when these conditions are lifted.
- > Subsidies may either contribute to the financial equilibrium of a project taken as a whole or be earmarked to fund specific infrastructure. They are recognised upon acquisition and their amount is able to be reliably measured. There are two different types of subsidy:
 - Unconditional subsidies which are recognised as revenue, independently of their collection date, when the entitlement is acquired to wit:
 - on the date of notification of the funding party's unilateral decision or, otherwise, on the date when the public development establishment receives the appropriation order if there was an appropriation decision
 - on the execution date of the appropriation order if there is an appropriation agreement
 - Conditional subsidies which are recognised as revenue once the conditions for their granting have been met.
- > Contributions² from local authorities, land owners or builders to fund all or part of the public infrastructure to be produced.
- > Other revenue from the sale of studies or other services, rental income, etc.³ may be attributed to the project due to its significant nature.

2.2. Inventories

2.2.1. General principle

A development inventory is recognised as an asset when all the following conditions are met:

- > It is controlled by the public development establishment.
- > Its cost or value may be reliably measured.

² For instance, financial contributions to the cost of public infrastructure, which are covered by the provisions of Article L.311-4 *et seq.* of the Town Planning Code.

³ When this revenue is attributable to the project, the same applies to the related expenses.

Control of an inventory is established by the entity's ability to make use of its service potential or economic benefits.

When an entity implements a project under a mandate with a third party which does not allow it to control the managed inventories, the latter are not recognised in its assets.

All acquisition, processing and other costs incurred to bring the inventories to their present location and condition shall be included in the inventory acquisition cost. Direct and indirect staff expenses are excluded.

2.2.2. Initial recognition

2.2.2.1. *Attributable costs*

Expenses that are directly earmarked for one or several projects and which help leverage them are recognised in inventories.

In particular, property-related items, the costs of studies, fees, and expenses for works and certain marketing expenses are booked in inventories:

- > Property related: purchase cost and incidental expenses
- > Studies, fees, specific taxes: public inquiry and legal consultation expenses, legal fees, legal notices, rescue archaeology tax, etc.
- > Works⁴, including support expenses (support for the project owner, project manager), and demolition expenses
- > Marketing expenses allotted to a project: expenses to promote an on-going activity (buying advertising space, sales brochures, fitting out temporary sales offices/expenses for creating promotional material and other incidental expenses)
- > Loan costs: if the public development establishment borrows to fund its activity, it may choose to include loan costs in inventory costs

These items are measured at cost which is determined on a project-by-project basis.

2.2.2.2. *Non-attributable costs*

Some items are not included in inventories:

- > General preliminary studies.
- > Maintenance expenses and "recurrent" expenses that do not add to the assets' value (i.e. expenses for caretaking, insurance, property taxes, etc.).
- > Marketing and promotion overheads, and compensation for intermediaries.
- > Direct and indirect staff expenses.

⁴ Including funding via cost-sharing contributions (*fonds de concours*).

2.2.2.3. Specific case of inventories acquired free-of-charge

Inventories acquired free-of-charge are recognised at their market value as a counterpart to revenue for the accounting period. This free contribution, which has the nature of a subsidy, is factored in to calculate a project's percentage of completion.

2.2.3. Inventory withdrawals

On the reporting date, the balance sheet and income statement must show the inventory withdrawals resulting from a sale for valuable consideration or an assignment or transfer free-of-charge.

Inventory withdrawals are established on a project-by-project basis. As a result, the expense recognised on the income statement is determined for all revenue (sales and subsidies) received at project level. This expense is calculated as follows:

- > $\text{Inventory withdrawal expense} = \text{aggregate inventory acquisition cost of the end-of-project forecast} * \text{revenue completion rate}$

Nevertheless, the amount of this inventory withdrawal expense is limited to the book value of existing inventories. If the calculated amount of the inventory withdrawal is higher than the booked inventory amount, an additional liability is recognised.

3. MEASUREMENT AT THE REPORTING DATE

3.1. Special case: unreliable end-of-project forecasts

When the end-of-project forecasts are unreliable, no inventory withdrawal and no margin are recognised at project level.

If project revenue has been recognised, a provision for risks is booked in the commensurate amount.

3.2. Losses on completion

The total amount of an expected loss in the end-of-project forecast must be immediately recognised as an expense, independently of the percentage of completion of the project.

The loss is booked as a counterpart to a provision for losses on completion, less the negative margin already recognised at project level, where necessary.

3.3. Liability for uncompleted works

For revenue in "advance" (Introduction, IV.4.2.), an additional liability must be recognised in addition to recognition of the inventory withdrawal using the revenue completion method.

This additional liability, recognised as a provision for risks and liabilities, must be measured so as to ensure that, at project level, the aggregate margin after recognition of this liability is the same as the forecasted end-of-project margin following application of a proportional amount according to the revenue completion rate.

4. DISCLOSURES IN THE NOTES

The notes provide important information on development activities, especially concerning the percentage of completion of projects and their contribution to producing the income for the accounting period.

Information is provided in written form, together with quantitative data, in order to present:

- > Ongoing projects, their features, their percentage of completion, and facts allowing for comparison with previous accounting periods.
- > Explanations as to how the income is produced and its relation to the end-of-project forecasts.
- > Changes to the scope of projects, shifts in assumptions and amendments to end-of-project forecasts that have a major effect on income for for the accounting period.

**STANDARD 24
ACQUISITIONS OF
PROPERTY FOR
SUBSEQUENT RESALE
TO A THIRD PARTY**

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STANDARD 24

ACQUISITIONS OF PROPERTY FOR SUBSEQUENT RESALE TO A THIRD PARTY

Introduction

I. PRESENTATION OF PUBLIC LAND ESTABLISHMENTS

I.1 Role and responsibilities

The role and responsibilities of State-run public land establishments (*établissements publics fonciers d'État*) are set out in Articles L.321-1 *et seq.* of the French Town Planning Code (*Code de l'urbanisme*), as amended by the Order of 8 September 2011. According to the abovementioned articles, “public land establishments implement strategies designed to mobilise property, promote sustainable development and prevent urban sprawl. These strategies contribute to the creation of housing developments, particularly social housing, taking into account the priorities defined in local housing programmes. Within the scope of their powers, public land establishments may contribute to the development of economic activities, policymaking aimed at protecting against technological and natural risks, and the preservation of natural and agricultural areas.”

According to the final paragraph of Article L.321-1 of the Town Planning Code, any action taken by public land establishments is subject to an agreement.

The property acquisition-resale agreements entered into between public land establishments and the local authorities provide as follows: the public land establishment, which is not authorised to carry out property transactions or development projects for its own benefit, is to acquire property within the geographical scope of intervention of the contracting local authority, on the condition that the public land establishment sells the property to the local authority at the end of a fixed period, generally between five and eight years.

The local authority also has a right of substitution enabling it to designate the purchaser of the property, which may be, in particular, a social landlord, a planning authority, a property developer or a public development establishment.

The acquisition of property for subsequent resale to a third party carried out by the public land establishment enables the local authority to define the urban project it wishes to implement.

I.2. Financial resources available to public land establishments

Public land establishments have access to a range of resources:

- > They collect the proceeds resulting from the sale of property.
- > In accordance with current legislation (Article 1607 a of the French General Tax Code), they may decide to collect the special equipment tax (*taxe spéciale d'équipement* – “TSE”), voted each year by the Board of Directors within the limit of a ceiling provided for in the Finance Law.

- > They may receive financial contributions from the local authorities with which they have entered into an agreement, receive financial contributions from the French Environment & Energy Management Agency (ADEME), or from other entities.
- > They are allocated amounts relating to contributions paid by the local authorities in the event of non-compliance with regulations concerning social housing quotas (Solidarity and Renewal ["SRU"] fund designed to lower the cost of property).
- > They may receive rental management income related to the assets they hold.

They also have the possibility of borrowing funds to finance property acquisitions.

II. CHARACTERISTICS OF ACQUISITIONS OF PROPERTY FOR SUBSEQUENT RESALE TO A THIRD PARTY

II.1. Balancing finances related to acquisitions of property for subsequent resale to a third party

In accordance with their general operating structure, public land establishments do not make any profit out of the sale of property to the local authorities.

In accordance with property acquisition-resale agreements, the local authority shall undertake to purchase the property acquired by the public land establishment at a price determined in accordance with the terms of the relevant agreement. In principle, the price at which a public land establishment sells a property to a local authority shall be equal to the acquisition cost of the property, plus the costs borne by the public land establishment during the holding period. Some agreements may provide for the deduction from the cost price of the asset of any income earned by the public land establishment from the asset during this period. The property acquisition-resale agreement may or may not provide for the inclusion of the financial expenses incurred during the holding period in the sale price to be paid by the local authority.

II.2. Property management during the holding period

During the holding period, the property may be managed by the public land establishment or temporarily entrusted to the local authority on whose behalf it was acquired.

- > When the property is managed by a public land establishment, either directly or by a third party to which its management has been delegated, the public land establishment collects the income and bears any expenses relating to the property. This income derives in particular from the leases existing at the time of the public land establishment's acquisition of the property.
- > When the property is handed over to the local authority for management, the relationship between the owner (i.e. the public land establishment) and the local authority is defined by an agreement that refers to the "provision" (*mise à disposition*) of the property. In general, according to the terms of the agreement, the local authority collects the income and bears the expenses related to the property, with the exception of those incumbent on the owner.

III. SCOPE OF APPLICATION AND ACCOUNTING ISSUES RAISED

III.1. Scope of application

Prior to the implementation of the Order of 7 November 2012 on Public Budgetary and Accounting Management (*Décret "GBCP"*), public land establishments applied the dedicated Budget and Accounting Regulation M9-51, the accounting provisions of which were validated by Opinion No. 99-08 issued by the French accounting standards body (*Conseil national de la comptabilité* – "CNC") on 23 September 1999. This regulation included, in particular, provisions for the management of property asset inventories. These provisions have been incorporated into the common accounting regulation, subject to some specific conditions.

This Manual, which also applies to public land establishments, entered into effect on 1 January 2016. Prior to the publication of this Standard, the Manual did not contain any special provisions for public land establishments.

This Standard applies to acquisitions of property for subsequent resale to a third party carried out by State-run public land establishments¹. It addresses the need for specific accounting provisions for such acquisitions.

The other accounting standards of this Manual, including Standard 8 "Inventories", are used to recognise transactions made by public land establishments and their everyday operations, insofar as that they do not contradict the provisions of this Standard.

III.2. Accounting issues raised

From an accounting perspective, acquisitions of property for subsequent resale to a third party made by public land establishments give rise to three main issues regarding:

- > the nature of the property assets held by public land establishments for the purposes of resale to a third party. The issue is to determine whether these assets constitute tangible assets, inventories or receivables with respect to public land establishments;
- > the identification of the entity having control over the property assets, in particular when they are entrusted to the contracting local authority for management;
- > the measurement methods applied to the property assets at the balance sheet date.

¹ Local public land establishments are subject to a different set of accounting standards.

IV. ACCOUNTING NATURE OF PROPERTY ACQUIRED BY PUBLIC LAND ESTABLISHMENTS FOR RESALE TO A THIRD PARTY

IV.1. Since public land establishments do not act as agents, property assets do not qualify as “receivables”

The public land establishment’s activities consist of acquiring property that will ultimately be sold to a local authority or a third party chosen by the latter. The local authority is the initiator of such acquisitions; it determines the objectives thereof and defines the ensuing development and construction programmes.

The public land establishment only temporarily owns the acquired property and is obliged to resell it to the local authority. During the period over which it holds the property, the public land establishment does not avail of it in the same manner as an owner would normally be entitled to do so.

Two aspects that need to be determined are whether the public land establishment acts as an agent with respect to the initiating authority and whether the public land establishment acquired the property on behalf of said authority. If the answer is “yes” in both instances, the public land establishment should recognise a receivable against the initiating authority, rather than an inventory item or a tangible asset. This receivable would be settled upon the sale of the property to the authority. However, this approach does not address the issue of control upon the handing over of such assets for management to the initiating authority before they have been sold to the latter (in which case the public land establishment’s assets would continue to show a receivable).

The above analysis, according to which the public land establishment is considered to be acting as agent for the local authority, was rejected for the following reasons:

- > The agreement between the local authority and the public land establishment, under which the public land establishment is entrusted with the acquisition of property, does not legally qualify as an agency agreement.
- > An entity acting as an agent undertakes actions directly related to its agency agreement, regardless of whether said agreement is transparent (third parties are informed that the entity is acting on behalf of the principal) or opaque (third parties are unaware that the entity is acting on behalf of the principal). On the contrary, the public land establishment acts autonomously when it conducts transactions on specific types of property.
- > As a rule, an agency agreement implies the existence of financing to be borne by the principal (in this case the local authority) and remuneration of the agent (in this case the public land establishment) for its management activities. Neither of these elements are present in the case of acquisitions of property for subsequent resale to a third party.

If the agency agreement approach were to be adopted, the initiating public authority would have to record a liability with respect to the public land establishment, and an asset, such as a tangible asset in progress, would have to be recorded as a counterpart. This approach does not correspond to the accounting method adopted by local authorities that have entered into agreements with public land establishments.

Since the agency argument has been ruled out, assets held by public land establishments in the context of acquisitions for subsequent resale to a third party do not qualify as receivables. It must therefore be determined whether these assets constitute tangible assets or inventories.

IV.2. Property assets constitute inventories, not tangible assets

IV.2.1. Reminder of the definition of tangible assets and inventories

Fixed assets and inventories are defined in this Manual and in Regulation no. 2014-03 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC) relating to the General Chart of Accounts (*Plan comptable général* – PCG).

Definition of tangible assets

According to paragraph 1.1 of Standard 6 "A tangible asset is an identifiable physical asset for use over more than one accounting period that has a positive economic value for the entity. This positive economic value is represented by the expected future economic benefits or service potential to be derived from the use of the asset."

Article 211-6 of the PCG defines a tangible asset as "a physical asset held either for use in the production or supply of goods or services, for rental to third parties, or for internal management purposes and which the entity expects to use beyond the current accounting period".

Definition of inventories

According to paragraph 1 of Standard 8, "Inventories include goods acquired, produced or held by the entity:

- > for sale or distribution at no charge or for a nominal charge in the normal course of its operations (including goods, land or property held for sale), or for use in its activities,
- > or materials or supplies for consumption in the process of production of goods or services."

The definition of inventories under Standard 8 of this Manual also includes "individual items of work in progress of services of a commercial nature for sale at normal market conditions."

According to the PCG (Article 211-7), "Inventories include assets held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services."

The Manual establishes the principle that goods acquired for distribution at no charge or for a nominal charge also constitute inventories. This definition of inventories, which differs from that of the PCG, is justified by the need to include non-market activities that exist in the public sector.

IV.2.2. The fact that public land establishment assets may be leased does not rule out their classification as inventories.

The PCG classifies assets held for rental to third parties as tangible assets. As a result, if a property is acquired with a view to being leased, it qualifies as a tangible asset. If the property was acquired solely for the purposes of resale, its temporary rental would not constitute reason to dispute the purpose of the acquisition. Moreover, property may already be subject to a lease at the time of acquisition: the purchaser of the property shall be bound by such a lease,

irrespective of their intention to resell the property and despite not having been at the origin of said lease.

In the commercial sector, transactions involving property developers and property dealers often present this type of scenario. However, this does not affect the classification of the property acquired as inventory.

In conclusion, the possible rental of the property acquired under a property acquisition-resale agreement does not prevent it from being classified as inventory.

IV.2.3. The fact that the properties remain under the ownership of the public land establishments for several years does not necessarily mean that they qualify as tangible assets.

Both this Manual and the PCG indicate that a tangible asset has a useful life that extends beyond the current accounting period. The definition of inventories, on the other hand, does not mention a holding period, but refers to the use of such assets in the ordinary course of business.

The following question therefore needs to be determined: does the fact that the assets acquired by the public land establishment were held for several years mean that they constitute tangible assets?

According to the provisions of this Manual and the PCG, the period of use beyond the current accounting period is a necessary condition, but is not sufficient for an asset to qualify as a tangible asset.

Furthermore, the definitions of inventories in both sets of standards do not contain any reference to the holding period.

In the commercial sector, goods acquired by property developers, planning authorities or realtors constitute inventories, regardless of their holding period, which may extend well beyond the end of the accounting period.

Similar situations exist in the public sector. Some items may remain under inventories for several years before being used². For example, the fact that public land establishments hold assets acquired on behalf of the local authorities for several years does not in itself mean that these assets qualify as tangible assets. This is a non-decisive factor.

IV.3 Conclusion

The public land establishments' acquisition-for-resale activities consist of acquiring property for resale to a local authority, or a third party designated by the local authority, at a given date and within a contractually defined framework.

In view of the fact that public land establishments acquire property assets with a view to their resale to a third party, and in view of the other factors outlined above, we can conclude that these assets constitute inventories and not tangible assets³.

² Some military items, such as ammunition, may remain under inventories for several years.

³ This analysis does not concern property acquired by public land establishments for their own use (e.g. the purchase of their headquarters).

V. CONTROL OF PROPERTY ASSETS ACQUIRED FOR RESALE TO A THIRD PARTY

Each entity records the assets under its control on its balance sheet. In the context of acquisitions of property for subsequent resale to a third party, it is necessary to identify the entity that controls the property assets, particularly during periods where the management of said assets is entrusted to a third party. This makes it possible to determine whether the provision of such assets results in a transfer of control to the local authorities or whether control is retained by the public land establishments.

V.1. Definition of “provision” (*mise à disposition*)

As previously mentioned, an asset acquired by a public land establishment for the ultimate benefit of a local authority may be entrusted to the latter for management until it is eventually sold to said authority. The agreement entered into between the public land establishment and the local authority in this context generally refers to the “provision” of the asset.

In the local sector, other circumstances exist under which the term “provision” is used. It is therefore worth examining the conclusions that have been reached from an accounting perspective.

In particular, the term “provision” is used to describe asset transfers related to the transfer of powers resulting from decentralisation laws⁴. In this context, the entity benefiting from the provision of an asset holds all of the related managerial powers, but also the ownership rights, which generally infers that it has control over the asset.

These situations bear little resemblance to operations in which a public land establishment entrusts the management of an asset to the local authority as part of an acquisition of property for subsequent resale to a third party. The differences between the two situations include the following:

- > It is the property management agreement between the public land establishment and the local authority that defines the respective responsibilities of the two contracting parties, whereas, in the context of a transfer of powers, the legal status of the property is provided for by law.
- > At the end of the “provision” period (delegation of the management), the asset shall be returned to the public land establishment so that it can be permanently sold to the local authority.
- > When the public land establishment entrusts the management of an asset to a local authority, it does not transfer the corresponding financial liability, contrary to the rule laid down regarding transfers of powers.

Thus, the term “provision” is deemed to have a different meaning for assets handed over for management to a local authority by a public land establishment and for assets associated with transfers of powers. The argument that transfers of assets associated with transfers of powers result in the beneficiaries of said assets having control over the latter cannot be applied to assets entrusted for management to the local authorities by public land establishments. A suitable accounting treatment must therefore be defined for the latter.

⁴ Articles L.1321-1 *et seq.* of the Local Authority Code (*Code général des collectivités territoriales* – CGCT).

V.2. Conditions governing the delegation by public land establishments of the management of property assets

The public land establishment remains the owner of the property it originally acquired for the duration of the acquisition of property for subsequent resale to a third party.

The decision to entrust the management of such property to a local authority or a third party is made unilaterally by the public land establishment on its own initiative. Some provision agreements state that the public land establishment may decide to resume management of the property at any time.

When the local authority (or the third party appointed by it) takes over the management of the property, it replaces the public land establishment and is responsible for all day-to-day operations, i.e. maintenance, cleaning, caretaking and, where applicable, collecting rent from tenants. However, unless otherwise contractually agreed, the public land establishment remains responsible for carrying out major works and repairs. In the event that the local authority encounters difficulties in managing the property, it may temporarily relinquish management of the property in favour of the public land establishment.

In the event of disputes concerning the property, the public land establishment shall be responsible with regard to any legal proceedings.

Taxes and duties are allocated as follows:

- > The local authority (or third-party operator) pays any taxes and duties related to the use of the property (e.g. the household rubbish collection tax).
- > The public land establishment generally continues to pay the property tax.

Regarding insurance, the local authority (or third party) must take out insurance for the property under its management (tenancy liability and civil liability insurance as custodian of the property), while the public land establishment is responsible for insuring its property assets against the risks of fire and natural disasters, water damage, damage resulting from theft, etc.

V.3. Definition of control and application of this definition to property entrusted for management by public land establishments

The definition of “control of an asset” is covered in a number of accounting policy publications. The following definition is provided in Chapter 6 “Elements and Recognition” of the Conceptual Framework for Public Accounts: “The public entity controls the resource if it has the ability to use its service potential, for its own benefit or for that of third parties, or its economic benefits. This ability usually arises from ownership rights or rights of use stipulated in legislation.”

In addition to this definition, the notion of control is also examined in Standard 18 of this Manual (“Contracts for the Provision of Public Services”). According to this standard, when a local authority awards a public service concession, it does not relinquish control of the equipment used to provide that service, even if said equipment was initially built by the operator. In public-private partnership contracts, the analysis of control is simplified because the private operator finances and builds an asset that will be operated by the public authority as soon as it is put into service. With respect to concession agreements, the standard presents criteria for determining whether control of the equipment is held by the grantor or the operator. Two general criteria and

a series of more concrete indicators are provided to help determine the existence of control.

The control criteria are as follows:

- > control over the conditions of use of the equipment;
- > control over the service potential and/or future economic benefits derived from the use of the equipment.

In acquisitions of property for subsequent resale to a third party where the property is entrusted for management to the initiating local authority, the public land establishment is deemed to fulfil the criterion relating to control over the conditions of use of the property, as said conditions are contractually agreed between the establishment and the local authority.

The public land establishment also complies with the criterion relating to the control over the future economic benefits derived from the use of the asset, as it will receive the expected proceeds from the sale of the asset upon completion of the transaction.

These two criteria indicate that the public land establishment retains control of the property asset entrusted for management to the local authority.

Further analysis also shows that the control indicators provided for in Standard 18, applicable to acquisitions of property for subsequent resale to a third party, are also met⁵.

V.4. Local authority accounts

Local authorities do not recognise on their balance sheet the property assets entrusted to them for management by public land establishments, as this management does not result in them having control over said assets. The conclusion that the public land establishment retains control of the assets entrusted for management ensures symmetry between its accounts and those of the local authority.

Should control of the assets under management be considered to be transferred to the local authority upon signature of the agreement with the public land establishment, the assets in question would no longer appear on the balance sheet of the latter. They would then have to be recognised in the accounts of the local authorities. This situation would raise the following issues:

- > In the accounts of the public land establishment, the outflow of property inventories from the balance sheet would require a counterpart to be determined. The latter may consist of a receivable representing the sale price of the property to be collected in the future.
- > In the accounts of the local authority, it would be necessary to recognise a counterpart to the property recorded under its assets. This counterpart would have to be a liability, representing the price to be paid for the future acquisition of the property by the local authority.

Thus, it would not be possible to achieve symmetry between the accounts of the public land establishment and those of the local authority if the control of the property entrusted to the local authority for management was considered to be transferred to the latter.

⁵ In particular, the inability of the third-party operator to sell or pledge the equipment.

V.5. Conclusion

Public land establishment control the property assets they acquire until their permanent disposal, as they have control over the related conditions of use and future economic benefits, including when such assets are entrusted to local authorities or operators for management up until their disposal. Accordingly, the value of such property assets shall continue to be recorded under the public land establishment's inventories until their disposal.

VI. MEASUREMENT OF INVENTORIES RELATED TO ACQUISITIONS OF PROPERTY FOR SUBSEQUENT RESALE TO A THIRD PARTY RECORDED ON THE BALANCE SHEET OF PUBLIC LAND ESTABLISHMENTS

VI.1. Difficulties encountered

Upon their initial recognition, inventories are valued at cost, which consists of the price paid to the seller plus all costs directly attributable to the acquisition, such as transfer duties and notary's fees.

In the case of a trading business, consisting of the purchase and resale of goods, the initial value of inventories is frozen until their resale, except under special circumstances.

However, under the public land establishment economic model⁶, the local authority undertakes to acquire or arrange for the acquisition of the property in accordance with the provisions of the acquisition-resale agreement, which stipulates the method for determining the sale price. The price at which the public land establishment sells the asset to the local authority is generally equal to the original cost of the asset, plus the costs borne by the public land establishment during the holding period, and minus the income generated by the asset during that period. It is important to point out the specific features of this model compared with a traditional purchase-for-resale business model. In a traditional purchase-for-resale business model:

- > the entity does not know who will be the ultimate purchaser of the goods acquired;
- > the sale price of the property acquired may change depending on market prices and the entity's business objectives; it must provide the entity with a margin.

It is important to determine whether the inventory valuation method used in traditional trading activities is relevant to the acquisitions of property for subsequent resale to a third party carried out by public land establishments.

VI.2. Solution adopted

Insofar as the acquisitions of property for subsequent resale to a third party consist in the acquisition of property for resale, the public land establishment incurs a number of costs during the holding period, for the benefit of the contracting authority. These costs correspond to the temporary holding and management of the property assets during this period.

The direct costs incurred over the duration of this activity are eligible for recognition under work in progress, the main item being the original cost of the property. Subject to any limits that may

⁶ As defined in paragraph II.1 above.

be provided for by existing legislation or regulations, the costs that may be included are those that are taken into account in the calculation of the sale price of the property to the local authority, in accordance with the agreement or, where applicable, the multiyear intervention programmes (*programmes pluriannuels d'intervention* – PPI). In addition to the original cost of the asset, these costs may include:

- > project development and work costs;
- > maintenance expenses;
- > surveillance costs;
- > property tax;
- > financial expenses, under certain conditions;
- > other expenses directly related to the holding.

Income related to the acquisition of property for subsequent resale to a third party is taken into consideration for the valuation of work in progress where the terms and conditions for setting the sale price provide for the deduction of this income from the sale price. For example, income derived from the leasing of the property may be recognised as a reduction in the value of work in progress on the balance sheet. In the event that the receivables corresponding to such income cannot be recovered, the value of work-in-process shall be adjusted upwards to reflect the loss incurred.

Due to their specific nature, these inventories are recorded on the balance sheet under "work in progress". On the surplus or deficit statement, the change in "work in progress" is presented under operating revenue.

The provisions of Standard 8 "Inventories", relating to the initial measurement and impairment of inventories, apply to public land establishments.

VII. INFORMATION TO BE PROVIDED IN THE APPENDICES

The standard requires that information on current acquisitions of property for subsequent resale to a third party be presented in the notes. This information relates in particular to changes in work in progress during the accounting period, as well as the value of work in progress at the end of the accounting period and its main components: original purchase cost of the property assets, holding costs incurred post-acquisition, income deducted from holding costs, etc.



STANDARD 24

ACQUISITIONS OF PROPERTY FOR SUBSEQUENT RESALE TO A THIRD PARTY

Requirements

1. DEFINITION AND SCOPE

1.1. Definition

The purpose of the acquisitions of property for subsequent resale to a third party entered into between the state public land establishments and the local authorities is the acquisition by said establishments of property located within the geographical area of intervention of the contracting local authority. The public land establishments are responsible for managing the property during the holding period and for selling it to the local authority or the operator designated by it at the end of the holding period. The holding period generally lasts from 5 to 8 years.

Public land establishments are not intended to carry out any property or development operations for their own benefit.

1.2. Scope of application

This Standard applies to acquisitions of property for subsequent resale to a third party carried out by public land establishments.

Any provisions of Standard 8, "Inventories", of this Manual that are not in conflict with the provisions of this Standard shall apply to public land establishments.

Any transactions carried out by public land establishments, other than acquisitions of property for subsequent resale to a third party, shall be accounted for in accordance with the provisions of this Manual.

2. RECOGNITION OF ASSETS ACQUIRED FOR THE PURPOSES OF RESALE TO A THIRD PARTY

The acquisition-for-resale activities carried out by public land establishments consist of acquiring property for resale to a local authority, or a third party designated by the local authority, at a given date and within a contractually defined framework.

The property assets acquired shall meet the conditions defined by Standard 8 of this Manual in order for them to be recognised as inventories¹, including when the management of these assets is entrusted to the local authority or a third party designated by the latter:

- > control by the establishment: the latter controls the conditions of use of the assets, throughout the holding period, and benefits from the future economic benefits derived from such use;
- > sufficiently reliable measurement.

These assets are neither a receivable from the contracting local authority nor a tangible asset.

3. MEASUREMENT OF INVENTORIES RELATED TO ACQUISITIONS OF PROPERTY FOR SUBSEQUENT RESALE TO A THIRD PARTY

3.1. Measurement on initial recognition

Upon initial recognition, inventories related to acquisitions of property for subsequent resale to a third party, primarily consisting of property, are recorded at acquisition cost.

3.2. Subsequent measurement

Throughout the duration of the acquisition of property for subsequent resale to a third party, the direct costs incurred in this respect are included in the acquisition cost. Subject to any limits that may be provided for by existing legislation or regulations, the costs and revenues that may be included are those that may be taken into account in the calculation of the sale price of the property to the local authority, or the third party designated by the latter, in accordance with the agreement or, where applicable, the multi-year intervention programmes.

The costs may include:

- > project development and work costs;
- > maintenance expenses;
- > surveillance costs;
- > property tax;
- > financial expenses, under certain conditions;
- > other expenses directly related to the holding period.

¹ Standard 8 defines “inventories” as follows: “Inventories include goods acquired, produced or held by the entity:

- > for sale or distribution at no charge or for a nominal charge in the normal course of its operations (including goods, land or property held for sale) or for use in its activities,
- > or materials or supplies for consumption in the process of production of goods or services.

On the reporting date, the book value of the inventory is compared with the expected value of its sale. If it appears that the book value is higher than the expected sale value, an impairment loss is recognised and shall give rise to the recognition of an expense for the accounting period in accordance with standard asset impairment conditions.

4. PRESENTATION OF THE ACCOUNTS

The initial cost of the property subject to acquisitions for resale and all costs and revenues related to such acquisitions are presented on the balance sheet as "work in progress". On the surplus or deficit statement, the change in "work in progress" is presented under operating revenue.

5. DISCLOSURES IN THE NOTES

The notes provide appropriate information on acquisitions of property for subsequent resale to a third party.

Information shall be provided, in written form together with figures, in order to present:

- > The accounting methods used.
- > Acquisitions of property for subsequent resale to a third party in progress, their characteristics, their level of completion, the value of the corresponding work in progress, the main components of said work in progress (purchase cost of assets, subsequent holding costs, revenue deducted from the holding cost, etc.).
- > Acquisitions of property for subsequent resale to a third party that have been completed.
- > An indication of the amount and nature of the operating revenues taken into account to evaluate the current holding services, in accordance with the agreements entered into with the local authorities.
- > Commitments made and received within the framework of these acquisitions-for-resale.

GLOSSARY

Accrued expenses

Accrued expenses are certain liabilities the amount or timing of which may be estimated, but the level of uncertainty is generally much less than for provisions for risks and liabilities. Consequently, they are presented in the balance sheet as part of the category of debt to which they relate.

Active market

Market in which the items traded are homogenous, where willing buyers and sellers can normally be found at any time and prices are available to the public.

Asset

An asset is an economic resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. Future economic benefits consist either of cash flows arising from the use of the asset for the benefit of the entity or service potential expected from the use of the asset for the benefit of the entity or third parties, in keeping with its tasks or purpose.

Carrying amount

Amount at which an asset is recognised in the financial statements after deducting accumulated depreciation and impairment losses.

Cash (assets)

Cash (assets) include cash on hand and short-term liquid investments.

Cash (liability)

Cash liabilities correspond to funds received which are repayable on demand or at very short notice that may give rise to remuneration.

Control of an entity

The entity's power to govern the operating and financial activities of another entity so as to benefit from and/or bear the risks of such activities.

Control of a tangible asset

The entity's power to govern the conditions of use of the tangible asset, including the service potential and/or future economic benefits derived from its use. Furthermore, the fact that the entity bears the risks and expenses incurred in holding the asset also constitutes a presumption of control.

Corporate income tax expense

Corporate income tax expense is based on the taxation of the profit of the current period.

Current value

Current value is the higher of net selling price and value in use.

Deferral Accounts

Deferral accounts are used for the periodic allocation of expense and revenue, to ensure that the expense and revenue that effectively relate to each period, and only that expense and revenue, are recognised in that period.

Depreciable amount

Gross value of an asset less its residual value.

Depreciable asset

A depreciable asset is an asset with a determinable useful life. Useful life is measured by reference to the consumption of the expected economic benefits of the asset or the achievement of the service potential of the asset by the entity, over a limited period of time

Depreciation

Systematic allocation of the depreciable amount of an asset over its useful life.

Depreciation schedule

A representation of the allocation of the depreciable amount of an asset, reflecting the pattern in which the asset's future economic benefits or service potential is expected to be consumed.

Equity investments

The entity's equity investments are the interests that the entity holds in other entities, which may or may not be represented by equity instruments and which create long-term relationships with these other entities.

Expenses

An expense is a decrease in assets or an increase in liabilities which is not directly offset by the entry of a new asset or decrease in liabilities. An entity's expenses correspond either to the consumption of resources in the production of goods or services, or to an obligation to make a payment to another party necessary to settle the obligation towards that other party¹.

Fair value

Concept close to market value or value in use.

Financial assets

Class of fixed assets including equity investments, receivables from equity interests, and other financial assets.

Financial debt

Financial debts correspond to the funding resources of the entity that are interest-bearing and repayable on maturity; or to the funding of an asset.

¹ Depreciation, impairment and provisions are expenses.

Financial expenses

Financial expenses relate to financial debts, derivatives, cash and financial assets. They do not include bank service charges, penalties for late payments or interest and exchange losses on transactions other than those related to financing and cash position.

Financial revenues

Financial revenues are generated by financial assets, cash, financial debt and derivative instruments. Exchange gains on transactions other than those related to financing and cash position are excluded.

Fixed asset

An asset intended for long-term use in the course of the entity's activity.

Gross value

Value of an asset on initial recognition.

Impairment loss

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.

Impairment of an asset occurs when the recoverable amount of an asset is lower than the net carrying amount.

Intangible asset

Identifiable non-monetary assets with no physical substance held for use in the production or supply of goods or services, for rental to third parties, or for administrative purposes, and expected to be used during more than one period.

Intervention expenses

Intervention expenses are payments made, or to be made, as part of economic and social aid and support distribution schemes to clearly defined categories of beneficiary, without any equivalent recognisable consideration received in exchange.

Inventories

Inventories include finished goods or work in progress produced by the entity as well as raw materials and supplies acquired for consumption in the production process of goods and services or for use in the course of its operations. Inventories not used for internal purposes are held for ultimate sale or distribution at no charge or for a nominal charge.

Inventories also include individual items of work in progress of services of a commercial nature. This work in progress relates to services for sale at normal market conditions either on an individual basis or as part of other works or services of a commercial nature.

Inventory value

Inventory value is equal to current value.

Liability

A liability is an obligation towards another party at the reporting date, which at the date the accounts are finalised will probably or certainly give rise to an outflow of resources necessary to settle the obligation towards the other party.

Market value

The amount which could be obtained, at the reporting date, for the sale of an asset in a transaction carried out at normal market conditions, less costs to sell, is termed "market value." Normal market conditions refer to arm's length transactions between knowledgeable, willing parties.

It is determined on the basis of current use, by reference to prices observed for recent transactions for similar assets in comparable circumstances in the same geographical zone.

Net selling price

See definition of market value.

Non-financial debt

Non-financial debts are liabilities with a precisely defined amount and maturity.

Operating expenses

Expenses incurred in the course of the entity's operating activity.

Operating revenue

Operating revenue includes exchange revenue, non-exchange revenue and other revenue, excluding financial revenue.

Prepaid revenue

The entity recognises prepaid revenue where it has an unfulfilled obligation to deliver goods or services in respect of revenue received or receivable at the reporting date.

Prepaid revenue is an unfulfilled obligation to deliver goods or services to a third party.

Provision for risks and liabilities

Liability of uncertain timing or amount.

Recoverable amount

The recoverable amount is the higher of net selling price and value in use (see current value).

Residual value

Net amount that the entity expects to obtain for an asset at the end of its useful life after deducting expected disposal costs.

Revenue

Revenue is an increase in assets or a decrease in liabilities which is not directly offset by the derecognition of an asset or an increase in liabilities.

A distinction is made between non-exchange revenue (grants received and similar revenue) which is the entity's main resource, and exchange revenue including sales of goods and services, royalty revenue for the use of assets by third parties, etc.), interest income and dividends.

Service potential

Service potential is defined as the capacity to produce goods and services which contribute to achieving the objectives of the entity, without necessarily generating economic benefits in the form of cash for the entity. This service potential benefits the entity or third parties, according to its mission and purpose.

Service potential may consist of an economic benefit such as a cash inflow, or the reduction of a cash outflow.

Staff costs

Staff costs include all forms of compensation paid to the entity's staff as well as the related costs.

Tangible asset

A tangible asset is an identifiable physical asset, generally identified in a physical inventory, with a useful life greater than one reporting period. It has a positive economic value for the entity embodying the expected future economic benefits or service potential from its use.

Value in use

Value of the future economic benefits expected from the use and disposal of an asset. It is calculated on the basis of the estimated expected future economic benefits. As a general rule, it is determined on the basis of expected net cash flows. If such cash flows are not meaningful for the entity, other criteria may be used to value the expected future benefits. When the entity owns assets that do not generate cash flows, the criterion used is the expected service potential.



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