

10 Other assets and liabilities

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10.1 Introduction

10.1.1 This chapter identifies the accounting standards, their interpretation and other requirements relating to other assets and liabilities, that reporting entities and reportable activities should apply when preparing their statements of financial position. Chapter 5 provides more detail on the disclosure requirements.

10.2 Accounting standards

10.2.1 The following accounting standards and UITF Abstracts deal with accounting for other assets and liabilities, including provisions and contingencies:

IAS 2 *Inventories*;

IAS 19 *Employee Benefits*. Short-term benefits are covered in this chapter. Pensions accounting is covered in chapter 12.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* and IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*. IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* deals with the recognition of certain liabilities by certain producers of electrical goods and so will not be relevant.

IAS 2 Inventories

Applicability

10.2.2 IAS 2 applies, as interpreted, to all reporting entities covered by this Manual.

Objective of IAS 2

10.2.3 The objective of IAS 2 is to ensure that inventories are valued at the lower of cost and net realisable value and that their sub-classification in the statement of financial position or in the notes to the financial statements indicates the amounts held in each of the main categories in the standard statement of financial position formats.

Interpretations of IAS 2 for the public sector context

10.2.4 In applying IAS 2, reporting entities should be aware of the following interpretations for the public sector context.

- a) In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.
 - I. stockpile goods and military reserve inventories;
 - II. confiscated, seized and forfeited property; and
 - III. goods held under price support programmes.

Stockpile goods

- 10.2.5 Stockpile goods may be defined as strategic materials held for use in national defence and national emergencies. They can be further categorised as:
- a) non-current assets, which should be accounted for in the same way as other assets of the same type; or
 - b) other non-deteriorable and deteriorable inventories (the latter possibly being turned over from time to time to avoid obsolescence). Minimum capability levels of inventories should be accounted for as non-current assets. Other inventories should be accounted for under IAS 2.

Confiscated, seized and forfeited property

- 10.2.6 The proceeds of realisations of confiscated, seized and forfeited property go to the Consolidated Fund and are not for the benefit of the collecting entity concerned. Because of this, it would be inappropriate to recognise confiscated, seized and forfeited property in financial statements. Entities should state by way of memorandum note the proceeds derived from these realisations.
- 10.2.7 The proceeds of items sold to satisfy outstanding tax liabilities, net of sale expenses, should be treated in the same way as other taxation receipts.

Goods held under price support and stabilisation programmes (intervention stocks)

- 10.2.8 Intervention buying is a method of supporting market prices for certain agricultural commodities. The Rural Payments Agency is required to buy, at prices determined by the European Commission, produce of defined quality offered to it in accordance with detailed regulations. Purchased stocks are valued at cost, adjusted by any depreciation or revaluation prescribed by the Commission to bring them into line with market values. Costs of depreciation and any losses on sales are borne by, and any profits on sales or revaluations are surrendered to, the Commission. The method of valuation for intervention stocks is based on the requirements of the Commission and neither IAS 2 nor IAS 41 *Agriculture* apply.

IAS 19 Employee Benefits

Applicability

- 10.2.9 The sections of IAS 19 dealing with short-term employee benefits apply to all reporting entities and reportable activities covered by the requirements of this Manual.

Objective of IAS 19

- 10.2.10 The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits – i.e., short-term benefits such as salaries and wages; post-employment benefits that result from employment; other long-term benefits such as long service awards, including and termination benefits (for example, early departure costs) and pension benefits. It requires an entity to recognise the cost of providing employee

benefits in the period in which the benefit is earned by the employee, rather than when it is paid or payable:

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Applicability

10.2.11 IAS 37 applies in full, as interpreted, to all reporting entities covered by this Manual.

Objectives of IAS 37

10.2.12 The objective of IAS 37 is to ensure that provisions, contingent liabilities and contingent assets are appropriately recognised and measured and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

Interpretation of IAS 37 for the public sector context

10.2.13 Where the cash flows to be discounted are expressed in current prices, entities should use the real discount rate set by HM Treasury as promulgated in PES papers available on the Treasury website.

10.2.14 Separate disclosure of information about a particular contingency need not be made if that information has a protective marking. Guidance on protective markings is issued from time to time by the Cabinet Office or the relevant authority. If the potential effect of the contingency is required to be disclosed under IAS 37, the relevant amount should still be included in the aggregate figure for such contingencies.

10.2.15 Departments may disclose, by way of note, significant liabilities of the non-departmental public body, which will be funded by the department if they crystallise, where they relate to other than the routine business of the body. Departments should not recognise the liabilities of NDPBs, nor disclose any contingent liabilities of an NDPB that arise in the normal course of business.

Other Requirements

10.2.16 In making major changes to the method of calculation of a provision, entities should confer with the relevant authorities (through sponsoring bodies where appropriate) to establish whether there is a significant impact on expenditure control.

Provision of information to Parliament

10.2.17 Where the guidance on the handling of public funds requires certain financial but remote obligations that fall outside the scope of IAS 37 to be reported to Parliament, entities should include in their financial statements a note detailing those obligations (see paragraph 3.2.11).

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

Applicability

10.2.18 IFRIC 1 applies in full to all entities covered by this manual.

Consensus

10.2.19 IFRIC 1 gives guidance on accounting for changes in decommissioning, restoration and similar liabilities that have previously been recognised both as part of the cost of an item of property, plant and equipment under IAS 16 and as a provision (liability) under IAS 37.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Funds

Applicability

10.2.20 IFRIC 5 applies as adapted to reporting entities covered by this Manual.

Consensus

10.2.21 The consensus of the IFRIC includes that the contributor to a fund shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in a decommissioning fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay. It also includes that the contributor shall determine whether it has control, joint control or significant influence over the fund by reference to IAS 27, IAS 28, IAS 31 and SIC 12. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

Adaptation of IFRIC 5 for the public sector context

10.2.22 In applying IFRIC 5, entities covered by this Manual shall comply with the adaptations that are made by this Manual to IAS 27, IAS 28, IAS 31 and SIC 12 in respect of the departmental boundary.