

Opening IFRS Balance Sheet Budgetary Impact

IFRS		In Year Budgetary Impact						Comments
Apr-08		Adjustment	2009/10		RDEL			
£	Dr £		Cr £	CDEL	NCASH	NonCash		
Non-current assets:								
Property, plant and equipment								
Land	7,000,000	Adj 1	0	0				
Building	23,000,000	Adj 1	0	0				
Equipment	14,163,000	Adj 2	3,488,717	0	✓	✓		
Intangible assets								
Financial Assets								
Current Assets								
Assets classified as held for sale								
Inventories								
Trade and other receivables								
Cash and cash equivalents								
Total current assets								
Total assets								
Current liabilities								
Trade and other payables								
Accrued Employee Benefits	15,000,000	Adj 3		262,500	✓	✓	Budgetary cover could be required depending on in-year year movements	
Other liabilities								
Total current liabilities								
Non-current assets plus/less net current assets/liabilities								
Non-current liabilities								
Other payables: Leases	11,676,000	Adj 2					Liability in respect of the leased asse	
Provisions								
Financial Liabilities								
Total non-current liabilities								
Assets less liabilities								
Taxpayers' equity:								
General fund: Land	3,000,000	Adj 1						
Leased Equipment	246,000	Adj 2						
Employee Benefits	15,000,000	Adj 3						
Employee Benefits - CoC	262,500	Adj 3						
Revaluation reserve	2,000,000	Adj 1						
Donated asset reserve								
Total taxpayers' equity								

Adjustment 1

IAS 36 requires first time adopter to perform an impairment test. For the purpose of this example, the only indicator of impairment is in relation to land owned by Department Yellow. The land was subject of an environmental report which stated that it was contaminated. The department yellow also has a building on the site which it occupies. The value attributed to the assets are as follows:

	Current carrying amount	Recoverable amount	Write down
Land	10,000,000	7,000,000	3,000,000
Building	25,000,000	23,000,000	2,000,000

The recoverable amount of the building also decreased because of the land contamination. Building currently has a Revaluation Reserve balance, where as there is no reserve balance for land. Therefore the impairment loss for building is recognised against the Revaluation reserve, and against General reserve for the land.

The Total impairment of land and building was £5 million. The impairment in respect of land was charged to the General Reserve and for building against Revaluation Reserve

For the purpose of this exercise provision has been ignored. The balance in the Property, Plant and Equipment was £49,163,000 of which £35,000,000 was land and building and the rest were equipment see below:

Land	10,000,000
Building	25,000,000
Equipment (leased)	14,163,000
	49,163,000

Adjustment 2

Department Yellow (the lessee) entered into a five-year lease agreement on 1 April 2007. The lease rental is £3.2m per annum. Department Yellow has guaranteed a residual value of £3.2 million at the end of the lease term to the lessor but the asset is expected to have £500k residual value. The fair value of the asset is £14.163 million. The rate implicit in the contract is 6.5%. Under UK GAAP, the lease rentals were expensed as incurred. Under IFRS, the lease is treated as finance lease. Department Yellow's IFRS transition date is 1 April 2008.

The In-year budgetary impact and the Operating Cost Statement are shown below:

Depreciation	2,732,600
Interest charges	712,595
Cost of capital (see below)	43,522
	3,488,717

The cost capital is calculated using the average value on the net figure i.e. asset minus liability using the rate of 3.5%.

Adjustment 3

Current Liabilities

IAS 19 requires short term benefits to be recognised as a liability (Accrued Employee Benefits). For this exercise we will assume that the employee benefits will be paid within 12 months.

Accrued Employee Benefits

The accrued annual leave is calculated at £15,000,000. The adjusting entries are:

Cr: Accrued Employee Benefits (B/S) £15,000,000

Dr: General Reserve (OCS) £15,000,000

Under UK GAAP the annual leave of £15 million would not have been recognised.

For 2009/10 financial year budgetary cover could be required depending on the movements but this example shows no budgetary impact.

The recognition of accrued employee benefits should reduce the cost of capital charges.

In this example the cost of capital charge is £262,500 credit.