United Nations

ST/IC/2013/36*

Secretariat

31 December 2013

# Information circular**

To: Members of the staff

From: The Assistant Secretary-General for Programme Planning, Budget and Accounts, Controller

Subject: **United Nations policy framework for International Public Sector Accounting Standards**

1. The purpose of the present circular is to inform staff members of the United Nations policy framework for International Public Sector Accounting Standards (IPSAS), which outlines the accounting policies that the Secretariat is implementing in order to produce IPSAS-compliant financial statements and to support the realization of the benefits associated with IPSAS. The framework is designed to support understanding of IPSAS principles and illustrate how the Standards are being applied at the United Nations.

2. The Secretary-General, in his report of 12 May 2006 (A/60/846/Add.3), sought the approval of IPSAS adoption by the United Nations as part of the system-wide adoption of the Standards. On 7 July 2006, the General Assembly, in its resolution 60/283, approved the adoption of IPSAS for the United Nations.

3. The adoption of IPSAS by the Organization necessitated revisions to the Financial Regulations and Rules of the United Nations. The General Assembly, in its resolution 67/246, adopted the revised Financial Regulations. The Secretary-General promulgated a revised edition of the Financial Regulations and Rules for IPSAS adoption in Secretary-General's bulletin ST/SGB/2013/4, effective 1 July 2013.

4. In the revised Financial Regulations and Rules, financial regulation 6.1 states, "The financial statements shall be prepared annually in United States dollars in accordance with the present Regulations and Rules, decisions of the appropriate legislative bodies and the International Public Sector Accounting Standards." Accordingly, the United Nations policy framework for IPSAS outlines the policies that will ensure that the United Nations produces IPSAS-compliant financial statements, in accordance with financial regulation 6.1. For peacekeeping operations, the first set of IPSAS-compliant financial statements is scheduled to be issued for the fiscal year 1 July 2013 to 30 June 2014; for all other reporting entities of the Secretariat, the first set is scheduled to be issued for the year 1 January to 31 December 2014.

* Reissued for technical reasons on 3 April 2014.

** The present circular will be in effect until further notice.

5. The United Nations policy framework for IPSAS outlines the standards that are applicable to the United Nations and then gives a summary of each standard, details of the standard, the United Nations disclosure requirements for the standard and policy guidance for the standard.

6. The text of the United Nations policy framework for IPSAS is set out in the annex to the present circular. The annex reproduces the version of the framework applicable at the date of issuance of the circular. The framework is subject to amendments and revisions from time to time. An updated version of the framework will be made available only on the intranet at http://secap472.un.org/hr_handbook/. Staff are therefore reminded of the need to review and refer to the updated version on the intranet.

# Annex*

## United Nations policy framework for International Public Sector Accounting Standards

## Contents



* The present annex sets out the version of the United Nations policy framework for International Public Sector Accounting Standards (IPSAS) applicable at the date of issuance of information circular ST/IC/2013/36. The framework is subject to amendments and revisions from time to time. An updated version of the framework will be made available only on the intranet at http://secap472.un.org/hr_handbook/. Staff are therefore reminded of the need to review and refer to the updated version on the intranet.

# Overview

The United Nations is working towards the adoption of the International Public Sector Accounting Standards (IPSAS) in tandem with the move to IPSAS across the organizations of the United Nations system. For peacekeeping operations, the first set of IPSAS-compliant financial statements is scheduled to be issued for the fiscal year 1 July 2013 to 30 June 2014; for all other reporting entities of the Secretariat, the first set is scheduled to be issued for the year 1 January 2014 to 31 December 2014.

The United Nations policy framework for IPSAS is designed to support understanding of the Standards and to demonstrate how they will be applied at the United Nations to provide guidance in making the transition to IPSAS and preparing IPSAS-compliant financial statements. The framework considers and builds on the system-wide platform of IPSAS-compliant policies and guidelines prepared to facilitate the harmonization of IPSAS-compliant financial reporting across the United Nations system. The framework is designed to be applicable to all reporting entities of the Secretariat.

### Development of the first edition of the framework

Version 1 of the United Nations policy framework for IPSAS, which was prepared by the United Nations IPSAS team, was updated to version 2 through a consultative process among internal stakeholders across the Secretariat. Version 2 was issued for final comments on 21 February 2012 and has progressed through version 3 to this final version, incorporating, as appropriate, the final comments of all stakeholders, including the United Nations Board of Auditors and the Independent Audit Advisory Committee.

### Development of the second edition of the framework

The second edition of the United Nations policy framework for IPSAS was produced as a result of issues emerging during the preparation of the corporate guidance documents, which provide detailed guidance on the implementation of IPSAS policies; it was also informed by a review of the first edition by external consultants and internal stakeholders.

This second edition of the framework may be further refined and updated to a third edition as IPSAS implementation progresses.

# Purpose

The United Nations policy framework for IPSAS is intended to establish policy and provide guidance on the application of IPSAS. It is not exhaustive and therefore should be used as a tool to complement the Standards and other professional accounting pronouncements as applicable. Professional accounting judgement should be used in attaining IPSAS compliance.

The final authority with respect to any area of IPSAS remains with the relevant standard, issued by the International Public Sector Accounting Standards Board, and other accompanying implementation guidance issued by the Board. Should a conflict arise between this policy framework and the relevant IPSAS standard, the requirements set out in the standard prevail.

In some cases, concepts and definitions included in this policy framework represent extracts from the 2011 edition of the *Handbook of International Public Sector Accounting Pronouncements*, published by the International Federation of Accountants; credit is hereby extended to the Federation and the Board.

This policy framework is intended for United Nations internal purposes only.

# Introduction

## The decision to adopt IPSAS

The United Nations has been preparing its financial statements in accordance with the United Nations system accounting standards since 1993. Those standards were developed by accounting professionals within the United Nations system on the basis of the International Accounting Standards. When the standards were first approved, they were considered to represent high-quality accounting standards in comparison with standards applied by comparable organizations.

However, in recent years, United Nations accounting professionals and auditors have recognized that the United Nations system accounting standards have not kept pace with best practices in the rapidly changing international accounting environment. In this context, the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination (CEB) commissioned its Task Force on Accounting Standards to review the possibility of the adoption by the United Nations of external accounting standards. As a result of this review, the High-level Committee concluded that International Public Sector Accounting Standards (IPSAS) represented international best practices for public sector entities and intergovernmental international organizations and that the adoption of IPSAS would improve the quality, comparability and credibility of the financial reporting of the United Nations. That conclusion was endorsed by the Committee's Finance and Budget Network. On 30 November 2005, the Committee recommended that all organizations of the United Nations system adopt IPSAS; in April 2006, CEB endorsed the Committee's recommendation.

Subsequently, the Secretary-General, in his report of 12 May 2006 (A/60/846/Add.3), sought the approval of IPSAS adoption by the United Nations as part of the system-wide adoption of the Standards. The Secretary-General viewed such adoption as a vital component of the drive of the United Nations to excel as a modern, progressive Organization, and emphasized the benefits in terms of improved governance, accountability and transparency. On 7 July 2006, the General Assembly, in its resolution 60/283, approved the adoption of IPSAS for the United Nations.

In 2006, the High-level Committee established a jointly funded system-wide project to support the development of a harmonized framework of IPSAS-compliant policies and to achieve economies in addressing common IPSAS implementation issues across the organizations of the United Nations system. By the end of 2007, a portfolio of IPSAS-compliant policies and guidelines had been developed under the project that has been accepted by the United Nations system organizations as providing a stable platform for facilitating the harmonization of IPSAS-compliant financial reporting across the system. This United Nations policy framework for IPSAS considers and builds on the system-wide platform of IPSAS-compliant policies and guidelines.

## Impact and benefits of IPSAS

### Move to accrual-basis accounting

With the adoption of IPSAS, the United Nations will move away from the United Nations system accounting standards, which were developed internally by accountants within the United Nations system. Compliance with IPSAS requires the introduction of the full accrual basis of accounting, which is accepted best practice and represents a significant change from the modified cash basis of accounting applied under the United Nations system accounting standards. The full accrual basis of accounting requires the recognition of transactions and events when they occur (and not only when cash or its equivalent is received or paid) and their reporting in the financial statements for the fiscal periods to which they relate.

Compared with the United Nations system accounting standards, IPSAS requires the capture and presentation of additional details of the assets, liabilities, revenue and expenses of an organization. For example, IPSAS requires the presentation in the financial statements of all assets acquired, including real property, equipment and intangible assets, and their gradual depreciation or amortization over their period of use; such detailed requirements will necessitate improved stewardship of the organization's assets.

IPSAS adoption will also lead to more accurate recognition of liabilities resulting from past transactions and events, including comprehensive recognition of all employee benefit liabilities. These changes will require improvements in the Organization's control framework and will allow for enhanced management of resources and improved decision-making. More comprehensive information about revenue and expenses will better support strategic planning and results-based management.

Financial statements of the Organization prepared under the detailed requirements of IPSAS will allow for improved comparability between financial periods and with the financial statements of other United Nations organizations and other entities applying the Standards. Overall, the application of independent, internationally accepted accounting standards will lend increased credibility to the financial statements of the United Nations.

### Presentation of the financial statements

The application of IPSAS entails substantial modifications to the presentation and structure of the United Nations financial statements. More important, audited financial statements are required on an annual basis.

In particular, the primary financial statements no longer refer to the various categories of funds, but show a single, aggregated position for the reporting entity. New statements, such as changes in net assets, are required, and detailed note disclosures including segment information and a reconciliation of financial statements with the budget are to be provided.

### The impact of IPSAS

IPSAS are the accounting standards that will guide the future presentation of the financial statements of the Organization. However, the implementation of IPSAS goes far beyond the accounting function; as IPSAS-compliant accounting policies are put in place, there is a need to change procedures, detailed workflows and instructions, as well as the control framework that underpins financial accounting and reporting. The result will be a major organizational shift affecting the business process and general management. Thus, the success of IPSAS implementation depends on the cooperation and efforts of a large number of United Nations staff at Headquarters, at the offices away from Headquarters and at the field missions and other offices.

It has been recognized that the vigorous informational requirements for the production of IPSAS-compliant financial statements for the Organization will necessitate a change to a robust, global information system; the Umoja project, which was approved by the General Assembly in conjunction with the IPSAS project, is tasked with providing the information system that will be the backbone for the implementation of IPSAS.

## The International Public Sector Accounting Standards Board

The International Public Sector Accounting Standards Board is the body that has developed IPSAS. The Board is an independent standard-setting body designated by, and operating under the auspices of, the International Federation of Accountants.

The Federation is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. The organization, through its independent standard-setting boards, sets international standards in the areas of ethics, auditing and assurance, education and public sector accounting.

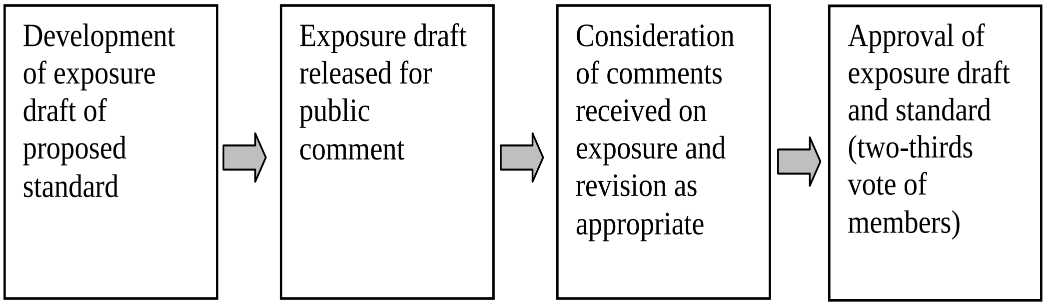
The goal of the IPSAS Board is to serve the public interest by developing high-quality accounting standards for use by public sector entities around the world in the preparation of general-purpose financial statements. This is done with the aims of enhancing the quality and transparency of public sector financial reporting and strengthening public confidence in public sector financial reporting.

The IPSAS Board consists of 18 volunteer members from around the world with experience and expertise in public sector financial reporting. Members are appointed by the Board of the International Federation of Accountants on the basis of recommendations of the Federation’s nominating committee. The IPSAS Board also includes observers, who attend meetings with full rights of the floor but do not have voting rights with regard to the issuance of exposure drafts or IPSAS standards. Both the United Nations and the United Nations Development Programme have observer status with the Board.

The IPSAS Board follows a rigorous and transparent due process in the development of IPSAS. This process provides the opportunity for all those interested in financial reporting in the public sector, including those preparers and users directly affected by IPSAS, to make their views known to the Board and to ensure that those views are considered in the standard development process.

**Due process**

The due process followed by the IPSAS Board in the development of IPSAS is outlined below.




The most up-to-date version of IPSAS is contained in the 2013 edition of the *Handbook of International Public Sector Accounting Pronouncements*. A copy of the *Handbook* and further information may be obtained from the website of the IPSAS Board (http://www.ipsasb.org). The website includes the following:

- IPSAS standards, information papers and consultation papers approved by the Board
- Outstanding exposure drafts
- Comments on exposure drafts
- Meeting agendas and agenda papers
- Meeting minutes
- List of Board members along with their biographies
- French and Spanish translations of the 2007 edition of the *Handbook*.

## Overview of IPSAS standards

Currently, there are 32 accrual-basis IPSAS standards. If a standard does not exist for a particular area, the Organization is encouraged to look to pronouncements of the International Accounting Standards Board, including the International Financial Reporting Standards, for relevant guidance. The International Financial Reporting Standards and other guidance standards are developed by standard-setting bodies.

This policy framework is based on the requirements of the IPSAS standards. The framework will be updated when there is an amendment to the current standards or upon the issuance of new standards that have an impact on this document.

**Directly related standards**

The following standards are directly related to the operations of the Secretariat:

- **IPSAS 1, Presentation of financial statements**: sets out the overall considerations for the presentation of financial statements; offers guidance for the structure of the statements and minimum requirements for their content under the accrual basis of accounting.
- **IPSAS 2, Cash flow statements**: requires the provision of information about the changes in cash and cash equivalents during the financial period arising from operating, investing and financing activities.
- **IPSAS 3, Accounting policies, changes in accounting estimates and errors**: specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of errors.
- **IPSAS 4, The effects of changes in foreign exchange rates**: deals with accounting for foreign currency (non-United States dollars in the case of the Secretariat) transactions and provides guidance on how to translate the financial statements into a presentation currency. The principal issues are which exchange rate to use for the recognition of certain transactions and balances, and how to report the financial effect of changes in exchange rates within the financial statements.
- **IPSAS 5, Borrowing costs**: prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- **IPSAS 6, Consolidated and separate financial statements**: requires all controlling entities to prepare consolidated financial statements, which consolidate all controlled entities, on a line-by-line basis.
- **IPSAS 8, Interests in joint ventures**: requires proportionate consolidation to be adopted as the benchmark treatment, and the equity method of accounting as an allowed alternative to account for joint ventures.
- **IPSAS 9, Revenue from exchange transactions**: establishes the conditions for the recognition of revenue arising from exchange transactions, requires such revenue to be measured at the fair value of the consideration received or receivable, and includes disclosure requirements.
- **IPSAS 11, Construction contracts**: defines construction contracts, establishes requirements for the recognition of revenues and expenses arising from such contracts, and identifies certain disclosure requirements.
- **IPSAS 12, Inventories**: prescribes the accounting treatment of inventories, including cost determination and expense recognition and any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.
- **IPSAS 13, Leases**: establishes requirements for the accounting treatment and disclosures for operating and finance leasing transactions by lessees and lessors.
- **IPSAS 14, Events after the reporting date**: establishes requirements for the treatment of certain events that occur after the reporting date, and distinguishes between adjusting and non-adjusting events.

- **IPSAS 15, Financial instruments — disclosure and presentation**: as at 1 January 2013, IPSAS 15 had been replaced by IPSAS 28 to 30.
- **IPSAS 16, Investment property**: establishes the accounting treatment and related disclosures for investment property. It provides for the application of either a fair value or historical cost model.
- **IPSAS 17, Property, plant and equipment**: establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation and impairment.
- **IPSAS 18, Segment reporting**: establishes requirements for the disclosure of financial statement information about distinguishable activities of reporting entities.
- **IPSAS 19, Provisions, contingent liabilities and contingent assets**: establishes requirements for the recognition of provisions and the disclosure of contingent liabilities and contingent assets.
- **IPSAS 20, Related party disclosures**: establishes requirements for the disclosure of transactions with parties that are related to the reporting entity. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.
- **IPSAS 21, Impairment of non-cash-generating assets**: prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognized. It specifies when an entity would reverse an impairment loss and prescribes disclosures.
- **IPSAS 23, Revenue from non-exchange transactions (taxes and transfers)**: deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, which are the main source of United Nations revenue.
- **IPSAS 24, Presentation of budget information in financial statements**: requires a comparison of budget amounts and the actual amounts arising from the execution of the budget to be included in the financial statements of entities that are required to or elect to make publicly available their approved budget(s) and for which they are therefore held publicly accountable.
- **IPSAS 25, Employee benefits**: defines the accounting treatment of and disclosure requirements for employee benefits.
- **IPSAS 28, Financial instruments**: presentation: prescribes principles for classifying and presenting financial instruments as liabilities or net assets and for offsetting financial assets and liabilities.
- **IPSAS 29, Financial instruments**: recognition and measurement: establishes principles for recognizing, derecognizing and measuring financial assets and financial liabilities.
- **IPSAS 30, Financial instruments**: disclosures: prescribes disclosures that enable the users of financial statements to evaluate the significance of

financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks.

- **IPSAS 31, Intangible assets**: prescribes the accounting treatment for intangible assets that are not dealt with specifically in another standard.

**Standards not directly related**

Currently, the following standards are deemed to be not directly related to the operations of the Secretariat:

- **IPSAS 7, Investments in associates**: requires all such investments to be accounted for in the consolidated financial statements using the equity method of accounting.

- **IPSAS 10, Financial reporting in hyperinflationary economies**: describes the characteristics of a hyperinflationary economy and requires financial statements of entities that operate in such economies to be restated.

- **IPSAS 22, Disclosure of financial information about the general government sector**: prescribes disclosure requirements for Governments that elect to present information about the general government sector in their consolidated financial statements.

- **IPSAS 26, Impairment of cash-generating assets**: prescribes the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognized. It specifies when an entity would reverse an impairment loss and prescribes disclosures. This Standard would be applicable only if the Organization obtains significant cash-generating assets. In addition, certain Secretariat entities that carry out certain revenue-producing activities may be subject to this Standard; however, there are no significant assets dedicated solely to revenue-producing activities.

- **IPSAS 27, Agriculture**: prescribes the accounting treatment and disclosures related to agricultural activity, a matter not covered in other standards. Agricultural activity is the management by an entity of the biological transformation of living animals or plants for sale or for distribution at no charge or nominal charge or for conversion into agricultural produce or additional biological assets.

- **IPSAS 32, Service concession arrangements: grantor**: prescribes the accounting treatment and disclosures related to service concession arrangements from the view of the grantor; this standard is applicable to Governments and public sector organizations applying IPSAS.

It should be noted that a standard that may currently have no impact or no material impact on United Nations financial statements might in the future become a directly related standard as a result of changes in the operations of the United Nations.

For updates on current standards or information on new ones, users of this policy framework are encouraged to visit the IPSAS intranet site regularly.

## Format of the United Nations policy framework for IPSAS

For the purpose of the policy framework document, the IPSAS standards are categorized into six sections:

(a) Presentation and consolidation;

(b) Revenue: exchange and non-exchange transactions;

(c) Expenses and liabilities;

(d) Assets and valuation;

(e) Financing, financial instruments and foreign exchange;

(f) Disclosure.

Each section contains a brief overview of the relevant standards, a detailed layout of the related policy choices and the United Nations position in that regard; guidance is also provided on how relevant principles of the standards should be applied in the United Nations context.

## General principles of accounting under IPSAS

### Accrual basis

On the accrual basis, the effects of transactions and other events are recognized when they occur (and not when cash or its equivalent is received or paid), recorded in the accounting records and reported in the financial statements for the financial periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash, but also of future obligations to make payments and the receipt of monetary resources. As a result of the use of this method, accounting has taken a complete shape, as all income and expenses received, paid, accrued or outstanding are taken into consideration. The assets and liabilities are also properly created and accounted for under this method. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

### Going concern

Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or reduce materially the scale of its operations. If there is such an intention or need, the financial statements may need to be prepared on a different basis and, if so, the basis used is disclosed. Under the going-concern concept, it is assumed that organizations such as the United Nations have reasonable expectations of continuing to provide services against a contribution for an indefinite period of time. Thus, it is reasonable to divide the life of an organization into accounting periods so as to be able to know both the operational efficiency and the financial position of the organization at the end of the accounting period.

### Understandability

It is essential that the information provided in financial statements be readily understandable by users. In this regard, users are assumed to have a reasonable knowledge of accounting, business and economic activities in general. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.

### Relevance

If it is to be useful, information must be relevant to the decision-making needs of users. Information is relevant when it influences economic decisions by helping users to evaluate past, present or future events or by confirming or correcting their past evaluations. Financial statements must have predictive value and confirm past events.

### Materiality

Information is material if its omission or misstatement could influence the economic decisions or assessments made on the basis of the financial statements. Whether information should be disclosed in the financial statements will depend on its materiality. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic that information must have if it is to be useful. Either the size or the nature of the item, or a combination of both, could be the determining factor. The consideration of materiality is relevant to judgements regarding both the selection and the application of accounting policies and to the omission or disclosure of information in the financial statements.

### Reliability

Information is "reliable" when it is free from material error and bias and can be depended upon by users to faithfully represent what it either purports to represent or could reasonably be expected to represent.

Information may be relevant but so unreliable in nature or misrepresented that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the entity to recognize the full amount of the claim in the financial statements before any settlement is reached, although it may be appropriate to disclose the amount and circumstances of the claim.

### Comparability

Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. They must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be undertaken in a consistent way throughout an entity and over time for that entity, and in a consistent way for different entities. It is therefore important to disclose the accounting policies used and any changes made thereon. It is also important that the financial statements present corresponding information for the preceding periods. Comparative figures are not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSAS and guidance provided by the Task Force on Accounting Standards.

**Consistency**

Accounting rules, practices, concepts and conventions should be continuously observed and applied; i.e., they should not change from one year to another. The rationale behind this convention is that frequent changes in accounting treatment would make the financial statements unreliable.

**Fair presentation**

Financial statements are frequently described as presenting fairly the financial position, performance and changes in financial position of an entity. The application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood to be a fair presentation of such information.

**Prudence**

Prudence is the inclusion of a degree of caution in the exercise of professional judgements in making estimates under conditions of uncertainty such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income or the deliberate overstatement of liabilities or expenses, as this would result in financial statements that are not neutral.

# Presentation and consolidation

## 1. IPSAS 1, Presentation of financial statements

### 1.1 Summary

This standard prescribes the manner in which the general-purpose financial statements of the United Nations should be presented to ensure comparability with previous financial periods and with the financial statements of other entities, and sets out guidance for the structure of and minimum requirements for financial statements prepared under the accrual basis of accounting.

### 1.2 Standard

1.2.1 A complete set of financial statements includes the following:

(a) A statement of financial position;

(b) A statement of financial performance;

(c) A statement of changes in net assets/equity;

(d) A statement of cash flows;

(e) A statement of comparison of budget and actual amounts, on the basis of the budget; and

(f) Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.

1.2.2 An entity whose financial statements comply with IPSAS shall disclose such compliance. Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS.

1.2.3 The presentation and classification of items in the financial statements shall be retained from one financial period to the next unless, on the basis of a change in the nature of the entity operation or a review of its financial statements, another presentation is found to be more appropriate or a standard requires such change.

1.2.4 Each material class of similar items shall be presented separately in the financial statements.

1.2.5 Assets and liabilities and revenue and expenses shall not be offset unless required or permitted by a standard.

1.2.6 Except when a standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous financial period for all amounts reported in the financial statements, including narrative and descriptive information. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable, for which an explanation will be given in the financial statements.

In accordance with the transitional provisions of IPSAS 1 and the guidance of the Task Force on Accounting Standards, the United Nations is not required to present comparative information for the first financial period pursuant to the adoption of IPSAS.

1.2.7 Financial statements shall be presented at least annually. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date; for the Secretariat reporting entities, this is deemed to be within three months after the reporting date.

*Statement of financial position*

1.2.8 The United Nations will use the current and non-current classifications for assets and liabilities when preparing the statement of financial position. Each asset or liability is classified as current if that item is expected to be recovered or settled within 12 months of the reporting date and non-current if that item is expected to be recovered or settled in more than 12 months after the reporting date.

*Statement of financial performance*

1.2.9 All items of revenue and expense recognized in a financial period shall be included in the statement of financial performance unless a standard requires otherwise.

1.2.10 The United Nations shall present, on the face of the statement of financial performance, a breakdown of expenses using a classification based on nature.

*Statement of changes in net assets/equity*

1.2.11 The United Nations shall present a statement of changes in net assets/equity showing all the changes in net assets during that financial period by relevant groupings.

*Statement of cash flows*

1.2.12 Cash flow information provides users of financial statements with a basis on which to assess the ability of the United Nations to generate cash and cash equivalents from operating, investing and financing activities (see the section on IPSAS 2 below for further information on the preparation of the statement of cash flows).

*Statement of comparison of budget and actual amounts*

1.2.13 Since the budget and the financial statements are prepared on different bases, the United Nations will include, as a separate additional financial statement, a comparison schedule between budgeted amounts and actual amounts prepared on the budgetary basis, as opposed to presenting an additional budget column in the financial statements presented in accordance with IPSAS. The United Nations prepares its budget on the modified cash basis of accounting; whereas the financial statements are prepared on the full accrual basis. The United Nations will therefore present the comparison schedule as explained above (see the section on IPSAS 24 below for further information on the preparation of the statement of comparison of budget and actual amounts).

*Notes to the financial statements*

1.2.14 The notes to the financial statements shall:

(a) Present information on the basis of preparation of the financial statements and a statement of compliance with IPSAS;

(b) Present a summary of significant accounting policies;

(c) Disclose the information required by IPSAS that is not presented on the face of the financial statements;

(d) Provide additional information that is not presented on the face of the financial statements, but is relevant to an understanding of any of them; and

(e) Be an integral part of the financial statements.

1.2.15 Items on the face of the financial statements shall be cross-referenced to any related information contained in the notes.

## 1.3 United Nations disclosure

1.3.1 This Policy Framework contains the format of the financial statements to be used by the United Nations (see appendix I, “Model financial statements”), taking into account the minimum requirements set out by IPSAS 1. Additional line items, subheadings and presentational amendments can be added if necessary.

1.3.2 Other disclosures required should include the judgements that management made in the process of applying the accounting policies.

### 1.4 Policy guidance

1.4.1 The Secretariat reporting entities will present annual financial statements as described in paragraph 1.2 above, along with a complete set of notes as an integral part of the IPSAS-compliant financial statements.

1.4.2 Assets and liabilities are classified as current and non-current where the term "current" applies to the financial period within 12 months following the reporting date.

1.4.3 The financial statements of the reporting entity shall include all assets, liabilities, revenue and expenses of the reporting entity.

1.4.4 The United Nations maintains fund-based accounting; each fund shall capture its share of revenue, expenses, assets and liabilities in an IPSAS-compliant manner; in some cases, this may be done on a standard-cost rather than an actual-cost basis. Pooled funds may be used in cases where assets and liabilities are funded across multiple funds.

1.4.5 All items of revenue and expense in accordance with IPSAS for the financial period are included in the statement of financial performance. All assets and liabilities in accordance with IPSAS at the reporting date are included in the statement of financial position.

1.4.6 Comparatives are shown in the financial statements except in the first year of the implementation of IPSAS.

1.4.7 Expenses are reported by nature in the financial statements.

1.4.8 The IPSAS-compliant financial statements will present an aggregated view of the reporting entity; fund group reporting will be presented in the notes to the financial statements.

1.4.9 The United Nations financial statements should be subject to an annual audit.

## 2. IPSAS 2, Cash flow statements

### 2.1 Summary

This standard prescribes how to present changes in United Nations cash and cash equivalents by means of a statement of cash flows that classifies cash flows during the financial period according to operating, investing and financing activities.

### 2.2 Standard

2.2.1 Cash flows exclude movements between items that make up cash or cash equivalents and investment of excess cash in cash equivalents because these components are part of the cash management of the United Nations, rather than part of its operating, investing and financing activities.

2.2.2 The statement of cash flows can be prepared using either the direct or the indirect method. This policy framework addresses the indirect method only, as that is the method used by the United Nations. Further guidance on the direct method can be found in IPSAS 2.

2.2.3 In using the indirect method, the net surplus or deficit of the United Nations will be adjusted for the effects of non-cash transactions (i.e., accruals, provisions, amortization and depreciation, etc.) and items of revenue or expense associated with investing or financing activities.

2.2.4 The statement of cash flows reports the cash flows during the financial period, classified by operating, investing and financing activities. United Nations activities therefore have to be analysed according to those three categories.

2.2.5 There might be cases where one transaction includes cash flows that fall under several different activities. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

2.2.6 Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from the statement of cash flows. Such transactions should be disclosed elsewhere in the financial statements (i.e., the statement of financial position, the statement of financial performance or the notes to the financial statements) in a way that provides all the relevant information about these investing and financing activities.

2.2.7 Cash and cash equivalents not available for use by the entity must be disclosed in the notes to the financial statements.

*Operating activities*

2.2.8 Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:

(a) Changes during the period in inventories and receivables and payables;

(b) Non-cash items such as depreciation and amortization, provisions, unrealized foreign currency gains and losses; and

(c) All other items for which the cash effects are investing or financing cash flows.

*Investing activities*

2.2.9 Examples of cash flows arising from investing activities include the following:

(a) Cash payments to acquire property, plant and equipment (vehicles, computers and office furniture), intangibles (software licences and upgrades) and other long-term assets;

(b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets; and

(c) Pro rata share of cash inflows and outflows from investing in the cash pool(s) that correspond to inflows and outflows of cash relating to short-term and long-term investments of the cash pool(s), and purchases and proceeds from sales of those investments.

*Financing activities*

2.2.10 Examples of cash flows arising from financing activities include the following:

(a) Cash receipts from new borrowings;

(b) Cash payments to repay loans; and

(c) Cash payments for interest incurred on loans and other obligations.

*Transactions denominated in currencies other than United States dollars*

2.2.11 Cash flows arising from transactions in a currency other than United States dollars should be recorded in the United Nations presentation currency (United States dollars) by applying to the non-United States dollars currency amount the exchange rate between the presentation currency and the non-United States dollars currency at the date of the cash flow. The exchange rate applied shall be the monthly United Nations operational rate of exchange for the month in which the transaction occurred. It should be noted that unrealized gains and losses arising from changes in currency exchange rates are not cash flows, but must be reported in the statement of cash flows to reconcile beginning and ending cash balances.

2.2.12 The format of the statement of cash flows to be used by the United Nations can be found in appendix I, "Model financial statements".

### 2.3 United Nations disclosure

2.3.1 Additional information about the nature and substance of disclosed amounts, including any restrictions on the balances held, should be added as a separate note disclosure.

### 2.4 Policy guidance

2.4.1 The statement of cash flows will be prepared using the indirect method. The net surplus or deficit of the United Nations is adjusted for the effects of non-cash transactions (i.e., accruals, provisions, amortization and depreciation, etc.); cash flows relating to and items of revenue or expense associated with investing or financing activities are presented directly.

## 3. IPSAS 24, Presentation of budget information in financial statements

### 3.1 Summary

This standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The standard also requires reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows.

## 3.2 Standard

3.2.1 An entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS.

*Comparable basis*

3.2.2 The comparison of budget and actual amounts shall present separately, for each level:

(a) The original and final budget amounts;

(b) The actual amounts on a comparable basis; and

(c) By way of note disclosure, an explanation of material differences between the budget and actual amounts.

3.2.3 The original budget is the one approved by the General Assembly, prior to the start of each biennium, for the regular budget.

3.2.4 All relevant information for the comparison of budget and actual amounts will be based on the budgetary accounts, which are on a modified cash basis. The two sets of figures (budget and actual amounts) must be presented using the same classification basis, for the same entities and for the same financial period.

3.2.5 The comparison of budget and actual amounts will be presented in a separate statement (the statement of comparison of budget and actual amounts) included in the financial statements.

Financial statements for the United Nations are prepared on the full accrual basis of accounting, whereas the budget is prepared on the budgetary basis, which is the modified cash basis. Actual amounts, as part of the comparison schedule, will be prepared on the budgetary basis.

*Aggregation*

3.2.6 In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements. Determining the level of aggregation will involve professional judgement.

*Changes from original to final budget*

3.2.7 The United Nations shall present an explanation of annual variances and of changes between the original and final budgets in the financial statements.

*Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements*

3.2.8 The actual amounts presented in the statement of comparison of budget and actual amounts must be reconciled to the actual amounts of the statement of cash flows, identifying separately any basis, timing, entity and presentation differences.

3.2.9 As the United Nations accounting basis for the financial statements (full accrual-basis accounting) is different from the budgetary basis, the budgetary result and net cash flows (statement of cash flows) from operating activities, investing activities and financing activities will be reconciled.

3.2.10 The reconciliation will be disclosed in the notes to the financial statements.

*Multi-year budgets*

3.2.11 For comparison purposes, the biennial regular budget should be broken down into annual components in order to fulfil the requirements for the preparation of annual financial statements. Peacekeeping operates on an annual budget cycle.

## 3.3 United Nations disclosure

3.3.1 The United Nations shall disclose reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts, and the actual amounts in the statement of cash flows. Furthermore, the United Nations shall explain the budgetary basis and classification basis adopted in the approved budget and the financial period of the approved budget. Explanation of material differences between the final budget and the actual amounts (as presented in the comparison schedule) shall be disclosed in the notes to the financial statements.

## 3.4 Policy guidance

3.4.1 The United Nations continues to prepare budgets on the modified cash basis, as it did prior to IPSAS adoption. IPSAS does not require a change in the budgetary basis. Material variances between the final budget and actual amounts on the modified cash basis requiring explanation will be at the level of 10 per cent by budget section for the regular budget and all other approved budgets, except those for peacekeeping operations, and at the level of 5 per cent for peacekeeping operations.

3.4.2 The statement of comparison of budget and actual amounts compares the final budget with actual amounts calculated on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget differ from those used to prepare financial statements, a disclosure note provides reconciliation of the actual amounts presented in the statement of comparison of budget and actual amounts to the actual amounts presented in the statement of cash flows.

3.4.3 For the regular budget of the United Nations, the annual original and final budgets will be derived as follows:

*Year 1*

The initial budget is the portion of the initial appropriation for the biennium approved by the General Assembly that is anticipated to be committed during the first year, as indicated by programme managers.

The final budget is the initial budget amounts of year 1 plus the adjustments included in the revised appropriation.

*Year 2*

The initial budget is the portion of the revised appropriation not included in the final budget of year 1.

The final budget is the initial budget of year 2 plus the adjustments included in the final appropriation for the biennium less the amount reported in the year 1 financial statements as the year 1 final budget.

3.4.4 A two-year comparison schedule may be prepared at the end of the biennial budget; this is not a requirement of IPSAS.

3.4.5 Other Secretariat entities will follow the approach described above to split any multi-year approved budgets.

3.4.6 IPSAS-compliant budget-to-actual comparison amounts and note disclosures required under this standard will relate only to formally approved budgets. Other Secretariat reporting entities, including the United Nations Environment Programme, the United Nations Human Settlements Programme (UN-Habitat) and the United Nations Office on Drugs and Crime, will present statements of comparison of budget and actual amounts based on voluntary contributions that have been approved by their executive boards.

3.4.7 For peacekeeping operations, the original budget is the budget approved by the General Assembly for the financial year 1 July to 30 June. The final budget reflects the original budget with commitment authority amounts or the revised budget if such revisions are approved by the Assembly for the period. The budgets are approved at the level of the mission, and disclosures will be by mission.

# 4. IPSAS 3, Accounting policies, changes in accounting estimates and errors

## 4.1 Summary

This standard prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors.

## 4.2 Standard

4.2.1 Changes in accounting policies, the correction of errors and the revision of estimates are not required when the effect of applying them is not material.

4.2.2 The United Nations shall select and apply its accounting policies consistently for similar transactions, other events and conditions during each financial period unless another accounting policy permits categories for which differing policy may be appropriate.

4.2.3 In the absence of a specific standard, the organization should look at the requirements and guidance contained in IPSAS dealing with similar issues and those of other standard-setting bodies.

4.2.4 Changes in accounting policies. A change in accounting policy should be made only if required by a regulatory or accounting standard-setting body such as the IPSAS Board, or if the change results in more relevant or reliable information on transactions, events or conditions in its financial statements. Examples of changes in accounting policies include the following:

(a) Change from expense recognition at the time of commitment to the receipt of the good or service;

(b) Change from expensing of property plant and equipment to capitalization and depreciation; and

(c) Change from expensing inventory when purchased to capitalizing and expensing only when distributed.

4.2.5 When the United Nations changes an accounting policy, it shall apply the change retrospectively by restating the prior-year financial statements unless impracticable (see para. 4.2.6 below).

For example, if an organization should change its method of reporting cash flows from the indirect method to the direct method,. this would be considered a change in accounting policy and would require retrospective restating unless impracticable.

*Impracticability*

4.2.6 When it is impracticable to restate the prior-year financial statements, an organization shall apply the new accounting policy to the earliest financial period when retrospective application is practicable, which may be the current financial period, and shall disclose that fact.

4.2.7 For example, if an organization changes its accounting policy for the capitalization of property, plant and equipment, it should apply that change retrospectively. This means restating property, plant and equipment according to the new policy. However, should this require considerable time and effort, it could be considered impracticable to apply retrospectively and might therefore be applied on a prospective basis.

4.2.8 When it is impracticable to determine the cumulative effect, an organization shall apply the new accounting policy prospectively, from the date of the change in policy. A restatement of opening balances for the current financial period would therefore not be made.

*Changes in accounting estimates*

4.2.9 Estimation involves judgements based on the latest available and reliable information. An estimate may need revision if changes occur in the circumstances on which the estimate was based, or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior financial periods and does not constitute a correction of an error.

For example, estimates may be required for inventory obsolescence; the useful lives of, or expected pattern of consumption of, future economic benefits or service potential in depreciable assets; and the fair value of financial assets or financial liabilities.

4.2.10 The effect of a change in accounting estimates is applied in the financial period of the change and/or in future financial periods, where applicable.

4.2.11 Potential current-period errors discovered in the current financial period are corrected before the financial statements are authorized for issue.

4.2.12 Material errors in the preparation of the financial statements for one or more prior periods may be discovered in the current financial period. These errors are corrected retrospectively by restating prior-period financial statements or, if the error occurred before the earliest period presented, by restating the opening statement of financial position.

For example, a prior-period error would be the recording of contributions relating to a previous financial period in the financial statements for the current year (e.g., agreements without conditions were signed in the previous financial period). The comparative figures reflecting contributions, if material, must be restated in the comparative financial statements.

4.2.13 When it is impracticable to determine the effects of an error on comparative information, the United Nations shall restate the opening balances for the earliest financial period when retrospective restatement is practicable, which may be the current financial period.

**Summary of accounting treatments**

| | *Retrospective application required* | *Prospective application required* |
|---|---|---|
| Change in accounting policy[a] | Yes | Yes[a] |
| Change in accounting estimate | No | Yes |
| Prior-period errors | Yes | No |

[a] Only when retrospective application is impracticable.

### 4.3 United Nations disclosure

4.3.1 With respect to a change in accounting policy, the United Nations shall disclose:

(a) The nature of the change;

(b) The amount of adjustment for each financial statement line item affected;

(c) The amounts of adjustments related to prior periods; and

(d) Reasons for impracticability to make a certain adjustment, if any.

4.3.2 With respect to a change in an accounting estimate, the United Nations shall disclose:

(a) The nature and amount of change that affects the current period and, if applicable, future financial periods; and

(b) If it is impracticable to disclose the effect of the change on future financial periods, the reasons for such impracticability.

4.3.3 With respect to prior-period errors, the United Nations shall disclose:

(a) The nature of the error;

(b) The amount of correction for each financial statement line item affected;

(c) The amount of correction at the beginning of the earliest prior period presented; and

(d) If retrospective application is impracticable, the reasons for such impracticability.

### 4.4 Policy guidance

4.4.1 Changes in accounting policy are applied retrospectively by restating the prior-year financial statements unless impracticable, that is, if the required information was not previously captured the cost related to the restatement outweighs the benefit or the amount involved is non-material; in such cases, explanations will be presented in the notes to the financial statements.

4.4.2 Changes in accounting estimates are applied in the financial period of the change and prospectively.

4.4.3 All changes in accounting policies relating to the adoption of IPSAS will be applied in the year of adoption and prospectively except for opening balances, which will be restated for the initial transition to IPSAS.

4.4.4 Material errors in the preparation of the financial statements for one or more prior periods are corrected retrospectively by restating comparative prior-period amounts or, if the error occurred before the earliest period presented, by restating the opening statement of financial position of the United Nations reporting entity.

4.4.5 Where IPSAS does not provide guidance as to whether a change should be classified as a change in policy or a change in accounting estimate, it shall be considered a change in accounting estimate.

## 5. IPSAS 6, Consolidated and separate financial statements

### 5.1 Summary

This standard prescribes how the financial statements of an entity and those of controlled entities should be consolidated on a line-by-line basis. The current reporting structure of Secretariat reporting entities does not result in controlling and controlled entities. At the date of adoption of IPSAS, the United Nations is not considered to be a controlling entity and therefore will not prepare or present consolidated financial statements and will not account for controlled entities in its statutory annual financial statements. Secretariat reporting entities will be reviewed for control test on a regular basis.

### 5.2 Standard

5.2.1 Control, in accordance with IPSAS 6, is defined as “the power to govern the financial and operating policies of another entity so as to benefit from its activities”.

5.2.2 Consolidated financial statements shall include all controlled entities of the controlling entity (foreign or domestic), except when there is evidence that:

(a) Control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within 12 months of acquisition; and

(b) Management is actively seeking a buyer.

5.2.3 An entity (the controlling entity) controls another entity (the controlled entity) if one entity has the power to govern decision-making in relation to the financial and operating policies of another entity so as to benefit from its activities.

5.2.4 A controlling entity can also be a controlled entity. In such a case, the controlling entity need not present consolidated financial statements provided that the information needs are met through the consolidated financial statements of the ultimate controlling entity.

## 5.3 United Nations disclosure

5.3.1 Where control is deemed not to exist in an entity but significant influence is deemed to exist, disclosure may be made of the name of the entity, the basis for deeming significant influence, and summarized financial information of the entity.

## 5.4 Policy guidance

5.4.1 IPSAS requires the presentation of consolidated financial statements for the reporting entity and the related entities that it controls, but provides little guidance as to the identification of a reporting entity. According to the draft conceptual framework of the IPSAS Board, a public sector reporting entity may have a separate legal identity or be an organizational structure, administrative arrangement, programme or activity without a separate legal identity.[1] The conclusion is that under IPSAS, the reporting entity of the United Nations does not have to be equated with the legal entity of the United Nations, and the entities of the Secretariat as currently identified by the General Assembly for the preparation of separate financial statements qualify as separate reporting entities.

5.4.2 When each of the current reporting entities of the Secretariat is identified as a reporting entity under IPSAS, the analysis of control (applying the power and benefit test of IPSAS 6) of other reporting entities within the Secretariat as well as in the United Nations system does not point to an IPSAS requirement to produce consolidated financial statements.

5.4.3 Furthermore, the draft conceptual framework of the IPSAS Board has linked the preparation of consolidated financial statements to the existence of users, and it was noted that the General Assembly, the major user of the financial statements, has not requested consolidated financial statements. Thus, there are no identified users of consolidated financial statements of the Secretariat or the United Nations system.

5.4.4 The conclusion is that there is no specific requirement for consolidation under IPSAS for the United Nations; the Office of Legal Affairs and the funds and programmes of the United Nations were consulted and have no objection to this conclusion.

5.4.5 The Secretariat will not be presenting consolidated financial statements on the adoption of IPSAS; the currently identified reporting entities of the Secretariat will move to IPSAS compliance. Secretariat reporting entities will be reviewed for control test on a regular basis.

5.4.6 Where there is joint control, the reporting entity will incorporate its share of the net assets of the operations/activities in the statement of financial position using the equity method. If the operations or activities are considered under the control of another reporting entity, only the United Nations contribution to them will be reflected in the financial statement as an expense.

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[1] International Public Sector Accounting Standards Board, “Conceptual framework exposure draft 1”, December 2010, para. 4.5.

## 6. IPSAS 7, Investments in associates

### 6.1 Summary

This standard prescribes accounting by an investor for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure.

### 6.2 Standard

6.2.1 This standard applies to all investments in which an investor has significant influence unless the investor is:

(a) A venture capital organization; or

(b) A mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund that is measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

6.2.2 When there is evidence that the investment is acquired and held exclusively with a view to its disposal within 12 months of acquisition and that management is actively seeking a buyer, the investment shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

6.2.3 Otherwise, the equity method is used for all investments in associates over which the entity has significant influence.

6.2.4 There is a rebuttable presumption of significant influence if the investor holds, directly or indirectly, 20 per cent or more of the associate’s voting power.

6.2.5 Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor’s share of the investee’s post-acquisition change in net assets. The investor’s statement of financial performance reflects its share of the investee’s post-acquisition surplus or deficit.

### 6.3 Policy guidance

6.3.1 IPSAS 7 was deemed as having very limited applicability to the entities of the Secretariat, as those entities have no significant equity holdings in other entities.

## 7. IPSAS 8, Interests in joint ventures

### 7.1 Summary

This standard prescribes the accounting treatment required for interests in joint ventures, regardless of the structures or legal forms of the joint venture activities.

### 7.2 Standard

7.2.1 This standard applies to all investments in which the investor has joint control unless the investor is either:

(a) A venture capital organization, or

(b) A mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund that is measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

7.2.2 The key characteristic of a joint venture is a binding arrangement whereby two or more parties are committed to undertaking an activity that is subject to joint control. Joint ventures may be classified as jointly controlled operations, jointly controlled assets and jointly controlled entities. Different accounting treatments apply for each type of joint venture:

(a) Jointly controlled operations: the venturer recognizes the assets it controls, and the expenses and liabilities it incurs, and its share of revenue earned, in both its separate and consolidated financial statements;

(b) Jointly controlled assets: the venturer recognizes in its financial statements its share of the jointly controlled assets, any liabilities that it has incurred, and its share of any liabilities incurred jointly with the other venturers, revenue earned from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both separate and consolidated financial statements;

(c) Jointly controlled entities: two accounting policies are permitted: proportionate consolidation (under this method, the venturer's statement of financial position includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible; its statement of financial performance includes its share of the revenue and expenses of the jointly controlled entity) and the equity method, as described in IPSAS 7.

7.2.3 When there is evidence that the interest in a joint venture is acquired and held exclusively with a view to its disposal within 12 months of acquisition and that management is actively seeking a buyer, the interest shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

*Policy guidance*

7.2.4 A joint venture is a contractual arrangement whereby the Secretariat entity and one or more parties undertake an economic activity that is subject to joint control. Joint venture activities are classified into three forms:

(a) For jointly controlled operations where the Secretariat entity is the operator, the Secretariat entity recognizes in its financial statements the assets it controls and the liabilities and expenses it incurs. Where another organization is the operator, the Secretariat entity's expense and liability recognition is limited to the agreed billing arrangements;

(b) For jointly controlled assets, the Secretariat entity recognizes its share of the asset and any associated depreciation;

(c) For jointly controlled entities, the Secretariat entity applies the equity method of accounting; an entity may have a legal identity or may be an organizational structure, administrative arrangement, programme or activity without a separate legal identity.

7.2.5 The investment in the jointly controlled entity is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Secretariat entity's share of the surplus or deficit of the jointly controlled entity for each reporting period. The Secretariat entity's share of that surplus or deficit of the jointly controlled entity is recognized in the Secretariat entity's statement of financial performance.

7.2.6. Jointly controlled operations, for which the Secretariat reporting entity is the principal and controls the assets, liabilities, revenues and expenses, will be fully reflected in the accounts of the United Nations reporting entity; such jointly controlled operations include the jointly financed activities of the Department of Safety and Security, the International Civil Service Commission, the Joint Inspection Unit, the United Nations System Chief Executives Board for Coordination, the malicious acts insurance policy and the Dag Hammarskjöld Library Consortium. In the case of the United Nations Staff Mutual Insurance Society, for which the United Nations is the principal and exercises control over the assets, liabilities, revenues and expenses, the long-term unfunded employee benefit liabilities may be split and the United Nations may recognize only its portion, as such liabilities could be clearly identified to the specific reporting entity.

# Revenue: exchange and non-exchange transactions

## 8. IPSAS 23, Revenue from non-exchange transactions (taxes and transfers)

### 8.1 Summary

The objective of this standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions other than those that give rise to an entity combination. The Secretariat reporting entities receive significant amounts of revenue by way of assessed and voluntary contributions, which are considered revenue for non-exchange transactions.

In some transactions, it is clear that there is an exchange of approximately equal value, for example, in the sale of goods. These are exchange transactions and are addressed in IPSAS 9. In other transactions, an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions and represent the majority of the revenue of most public sector entities. For the United Nations, revenue from non-exchange transactions includes but is not limited to assessed contributions, monetary voluntary contributions, and in-kind voluntary contributions (for example, donations of goods and services).

## 8.2 Standard

*Revenue from non-exchange transactions*

8.2.1 An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

8.2.2 In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

8.2.3 When an inflow is identified as a non-exchange transaction, then determine whether the entity satisfies all of the present obligations related to the inflow. If it does, then recognize an asset and revenue; otherwise, recognize an asset and revenue to the extent that a liability is not also recognized, and a liability to the extent that a present obligation has not been satisfied.

8.2.4 Revenue from non-exchange transactions shall be measured from the amount of the increase in net assets recognized by the entity. Therefore, in recognizing and measuring revenue from non-exchange transactions under IPSAS, there are three questions to be addressed:

(a) Is there an asset to be recognized?

(b) Is there a corresponding liability to be recognized? and

(c) What is the resulting revenue recognition?

The “past event” that gives rise to control in the context of funding agreements is generally the point at which the binding funding agreement is entered into. Therefore, control can occur earlier than the actual transfer of funds, which would lead to the recognition of a receivable.

The definition of a binding agreement is important. For example, where a contribution letter is received and acknowledged but the allocation of the funds to specific projects is not specified or agreed upon until a later date, it can be considered that a binding agreement is in place. Where contributions are received before a binding agreement is in place, an advance receipt liability is recognized.

The control of an asset is also subject to the presence of stipulations in the contribution agreement relating to the future. If the receipt of future instalments under the agreement is subject to parliamentary law/approval or any similar actions by a third party, it may be difficult to state that the United Nations has control of those future instalments, and therefore no asset should be recognized for them.

However, in these situations, it may be appropriate to disclose a contingent asset for any future instalments. These types of stipulations are notably present in certain multi-year funding agreements and multi-donor trust funds.

*Recognition and measurement of an asset*

8.2.5 An asset is a resource when:

(a) It is controlled by the United Nations as a result of a past event;

(b) It can be reliably measured;

(c) There are future economic benefits or service potential that will flow to the United Nations; and

(d) Inflow to the United Nations is more likely than not to occur.

8.2.6 An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

8.2.7 An item that possesses the essential characteristics of an asset but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset.

*Recognition and measurement of a liability*

8.2.8 Revenue from non-exchange transactions is recognized to the extent that the transaction creates an asset without a corresponding liability. If the transaction has stipulations attached that amount to conditions, then a liability for those conditions will be recognized.

8.2.9 Stipulations imposed by donors on the use of contributions are classified as either conditions or restrictions. For a stipulation to be a condition, it must include both a performance obligation to use the donation in a specified manner and an enforceable return obligation, by legal or administrative means, to return the donation if it is not used in the specified manner.

8.2.10 In assessing whether a stipulation is a condition or a restriction, precedence must be given to the substance of the terms of the stipulation over its form. Thus, a mere specification in an agreement that a donation must be used in a certain way or returned to the donor is not in itself sufficient to warrant the assessment of a stipulation as a condition.

8.2.11 In order to qualify as a condition, a stipulation must also be specific on matters such as the nature or the quantity of goods or services to be provided or the nature of assets to be acquired as appropriate, and, if relevant, the financial periods in which the performance obligation is to be carried out.

8.2.12 The amount to be recognized as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. In most cases, this will approximate the fair value of the corresponding asset.

8.2.13 When an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

A review of all contribution agreements is necessary to identify the presence of conditions that would require the recognition of a liability, with consideration given to the substance of the agreement. As a result of a review across the Secretariat, conditions are considered to be found in European Commission agreements.

*Goods and services in kind*

8.2.14 Goods in kind are tangible assets that are transferred to an entity in a non-exchange transaction, without charge but that may be subject to stipulations.

8.2.15 Services in kind are services provided by individuals to an entity in a non-exchange transaction.

8.2.16 An entity should recognize an asset in respect of goods in kind when the resource meets the definition and recognition criteria of an asset. Revenue is recognized simultaneously with asset recognition unless the item of goods in kind is transferred with a condition.

8.2.17 An entity may, but is not required to, recognize services in kind as revenue and as an asset.

8.2.18 On initial recognition, goods in kind are measured at fair value as at the date of acquisition. The fair value is determined by reference to quoted prices in an active and liquid market, or otherwise by appraisal. An appraisal is usually undertaken on behalf of an entity by a qualified valuator.

8.2.19 Where entities are able to measure services in kind, these are required to be measured initially at fair value. Services in kind are measured at fair value with reference to similar services where the information is readily available in the national or international marketplace.

The receipt of goods and services in kind is quite common within the United Nations. Examples of goods in kind received include equipment (vehicles and computers) and inventories (donated food and drugs). Services in kind could include volunteers and free technical/expert assistance. The United Nations usually receives assistance in kind in the form of the use of premises and utilities, and associated maintenance costs. Utilities and maintenance costs can generally be identified and a fair value obtained. As these are effectively commodities that are immediately consumed, the recognition of the asset and the consumption or reduction of that asset happen simultaneously, resulting only in the reporting of in-kind revenue and corresponding equal expense. The United Nations also records any material one-off goods in kind that are received. Where this relates to property, plant and equipment, recognition thresholds are applied as for other property, plant and equipment.

Services in kind will be disclosed in the notes to the financial statements.

### 8.3 United Nations disclosure

8.3.1 Disclosure should comprise:

(a) The amount of revenue from non-exchange transactions recognized during the period by major classes;

(b) The amount of receivables recognized in respect of non-exchange revenue;

(c) The amount of liabilities recognized in respect of transferred assets subject to conditions;

(d) The amount of assets recognized that are subject to restrictions, and the nature of those restrictions;

(e) The existence and amounts of any advance receipts in respect of non-exchange transactions;

(f) The amount of any liabilities forgiven;

(g) The accounting policies adopted for the recognition of revenue from non-exchange transactions; and

(h) The nature and type of major classes of goods and services in kind received.

8.3.2 Revenue from non-exchange transactions will not be separately described on the face of the statement of financial performance. Instead, the revenue is to be described by its type, such as assessed contributions and voluntary contributions.

## 8.4 Policy guidance

8.4.1 Revenue from non-exchange transactions is measured from the increase in net assets recognized. Where the full criteria for recognition of an asset under a non-exchange agreement are not fulfilled, i.e., when inflow of economic benefits or service potential is probable but not virtually certain, and occurrence depends on an event outside the control of the entity, a contingent asset may be disclosed in the notes to the financial statements.

*Goods and services in kind*

8.4.2 A recognition threshold of $20,000 for the United Nations and peacekeeping operations ($5,000 for other Secretariat entities) per discrete contribution has been set for the recognition of goods in kind.

8.4.3 Goods in kind classified as heritage assets are not recognized on the face of the financial statements, but a descriptive disclosure of heritage assets will be made in the notes to the financial statements.

8.4.4 The approved accounting policy and treatment for goods in kind that are property, plant and equipment and inventory will apply.

8.4.5 For the non-recognition of services in kind, a disclosure in the notes to the financial statements, subject to a threshold of $20,000 for the United Nations and peacekeeping operations ($5,000 for other Secretariat entities) per discrete contribution, will be made at fair value. Where there is an exchange of in-kind services, the net amount of revenue from services in kind may be disclosed. The recommended classes of services in kind for note disclosure are:

(a) Technical assistance/expert services;

(b) Administrative support;

(c) Participation in training; and

(d) Other services in kind.

*Donated right to use premises*

8.4.6 The thresholds for recognition and measurement in the financial statements of the Secretariat will be $20,000 for the United Nations and peacekeeping operations and $5,000 for other Secretariat entities per discrete donated right-to-use arrangement per year.

8.4.7 Short-term donated right-to-use arrangements can be considered similar in nature to operating leases. The host Government/donor, while transferring the rewards to the United Nations, typically retains the risks relating to major repairs and replacements, which further supports a revenue/expense treatment.

8.4.8 Each year, amounts equivalent to the fair value of the right to use the asset (the equivalent commercial rent for a similar asset) will be recognized as revenue and expenses on the face of the financial statements, reflecting what the United Nations would otherwise have to pay for similar arrangements. This treatment applies specifically to the donated right-to-use arrangements that are classified as operating nominal leases.

8.4.9 For donated right-to-use buildings where the United Nations has exclusive control (or joint exclusive control) and the arrangement has a specified term of more than 35 years (75 per cent of the 50-year maximum life of buildings) or an indefinite term, the United Nations will capitalize the building that it controls or the portion of the building that it jointly controls at fair value and credit the deferred revenue for an equivalent amount. Buildings that are determined to be capitalized would be depreciated over the lesser of the term of the arrangement or the useful life of the buildings, with a maximum of 50 years. At the time the depreciation is recognized, an equal amount should be recognized as revenue by debiting deferred revenue and crediting revenue for the same amount.

8.4.10 However, for donated right-to-use building arrangements that are long-term but where the United Nations does not have exclusive control (or joint exclusive control) of the building (such arrangements typically involve the use of a room or a floor in a building), they will be treated as revenue/expense corresponding to the fair rental value equivalent.

*Donated right-to-use land, infrastructure assets and machinery and equipment*

8.4.11 When the right to use land, infrastructure assets or machinery and equipment is granted to the United Nations under an operating lease, the following thresholds shall be applied for recognition and measurement in the financial statements:

(a) For right-to-use land (where the title to the land is not granted to the United Nations, i.e., the United Nations is not the owner of the land), the yearly rental value equivalent of $20,000 for the United Nations and peacekeeping operations and $5,000 for other Secretariat entities per item, resulting in a revenue/expense treatment;

(b) For right-to-use infrastructure assets, the yearly rental value equivalent of $20,000 for the United Nations and peacekeeping operations and $5,000 for other Secretariat entities per item, resulting in a revenue/expense treatment;

(c) For right-to-use machinery and equipment, the yearly rental value equivalent of $5,000 for all Secretariat entities per item, resulting in a revenue/expense treatment.

*Assessed contributions*

8.4.12 Contributions are approved to be assessed for a one-year budget period or a portion thereof or for multiple years. Where budgets and/or appropriations are approved for multiple years, the related contributions are apportioned between the years of the budget period for payment. Assessed contributions are considered to be without conditions. In those cases where multiple assessments are issued within a single annual period, revenue is also recorded multiple times.

*Voluntary contributions*

8.4.13 Voluntary contributions and other transfers, which are supported by legally enforceable agreements, are recognized as revenue at the time when the agreement becomes binding, which is the point at which control of the asset is deemed to have been passed, unless the agreement establishes a condition that requires the recognition of a liability. In such cases, revenue is recognized as the liability is discharged. Voluntary pledges and other promised donations that are not supported by binding agreements, with offer and acceptance conditions, are recognized as revenue upon the receipt of cash. Such pledges and promised donations, as well as agreements not yet formalized by acceptance, are considered contingent assets for note disclosure if the receipt is measurable and probable within the subsequent financial period.

8.4.14 When the United Nations is an implementing partner with United Nations agencies, revenues from these transactions will also be categorized as unconditional voluntary contributions and therefore will be recognized when the United Nations has control over the underlying asset.

8.4.15 For an arrangement to be treated as conditional, the agreement must have stated performance and return obligations whose implementation is monitored, with a mechanism for the tracking and recording of enforcement.

*Financial and Administrative Framework Agreement*

8.4.16 Agreements under the Financial and Administrative Framework Agreement (FAFA) of the European Commission were found to be conditional in accordance with IPSAS 23:

(a) All European Commission agreements under FAFA will be accounted for as having conditions;

(b) The initial recognition point of the asset/liability is the signature of the agreement;

(c) The initial recognition amount of the asset/liability is for the full amount of the agreement, only if future-year contributions are not dependent on parliamentary approval;

(d) Revenue is recognized when the expenditure report is approved by the Commission or after the 45-day period following the submission of the report, whichever is sooner;

(e) Periodic assessment of conditionality of agreements, based on prior history with donors, should be performed and the accounting treatment applied accordingly;

(f) Accounting treatment for any agreements found to be conditional will follow the accounting treatment modelled for the FAFA framework.

*Multi-year voluntary contributions other than those made under the Financial and Administrative Framework Agreement*

8.4.17 Agreements with donors in which the undertaking to provide funding is spread across more than one accounting period are referred to as multi-year donor agreements. Revenue from a multi-year donor agreement is generally derived from voluntary contributions. Multi-year voluntary contribution agreements are usually unconditional; however, there are certain multi-year voluntary contribution agreements that are conditional, as noted in paragraph 8.4.16 above. When the amount(s) is/are not specified as being provided for specific years, the full amount relating to the agreement is recognized as revenue upon the signature of the agreement when it becomes binding.

8.4.18 When funding is split into portions that are specific to a certain year of contribution and unused funds of that year are to be returned, the revenue will be recognized in the year to which the funding relates. Funding amounts promised for future years will be disclosed as contingent assets. For instances where cash is received in advance of the signing of a formal agreement by both parties to the arrangement, the advance should be recorded as an asset with a corresponding liability. When the origin of funds credited remains unknown, they are recorded as a liability.

8.4.19 For multi-year unconditional agreements that are subject to approval outside the donor's control, revenue should be recognized for such contributions requiring third-party approval (such as parliamentary or budgetary approval) when authorization is obtained. Future instalments will be disclosed in the notes as contingent assets.

8.4.20 Transactions arising from the return of unused funds should be recorded as a reduction of revenue in the current financial period when the outflow is probable and measurable.

8.4.21 In cases where the funds relating to revenues recorded in a previous financial year are returned, the fund balance will be reduced, reflecting a reduction in net assets/equity.

8.4.22 Interest will be recorded as exchange revenue unless the return to the donor is specifically requested and agreed upon upfront. In such cases, interest will remain as a payable until a refund is made to the donor.

### 8.5 Revenue relating to pledges made in prior years; project assets; implementing partner transactions

8.5.1 Revenue for contributions without a formal agreement will be recognized on a cash basis. If a Member State retroactively pledges to the Technical Cooperation Fund (makes a pledge in the current year related to a prior year), the revenue will only be recognized in the current year at the date the pledge becomes binding. This is not treated as a prior-period adjustment under IPSAS.

8.5.2 Project assets will follow the concept of control. Project assets for projects under the control of and executed directly by the Secretariat reporting entity will be capitalized. Assets for projects executed by an external party will be considered outside the control of the reporting entity and will therefore not be capitalized, unless the Secretariat reporting entity maintains full control of the project and the implementing/executing third party is considered a direct agent of the Secretariat reporting entity, or in cases where the implementing/executing third party has a responsibility to deliver a capital asset. For a project asset to be capitalizable by the United Nations, it should meet the established capitalization threshold and the benefits from the asset should flow to the United Nations reporting entity. If these criteria of control, capitalization threshold and flow of benefit from the asset to the United Nations are not met, then the expenses incurred on such projects by the United Nations will be recorded in the statement of financial performance.

8.5.3 An implementing/executing third party is considered a direct agent of the Secretariat reporting entity when the United Nations is directly involved in the choice of staff to be hired by that third party and/or the type of assets to be purchased in order to execute the project. An example is the staff security programme implemented by the United Nations Development Programme on behalf of the United Nations. In this case, the United Nations will capitalize the related project assets.

Pass-through arrangements are agreements where the Secretariat reporting entity receives and disburses funds on the basis of the agreement with the donor. The reporting entity has no control over the arrangement and acts only as an agent; nor does the reporting entity benefit from the pass-through arrangement except by means of the support charges received. Consequently, revenue and expenses will not be recorded for pass-through arrangements; only the support charges will be recorded as non-exchange revenue. Note that arrangements that have some of the characteristics of pass-through arrangements but that directly benefit the programmatic work of the reporting entity will not be considered pass-through arrangements, but will be recorded as non-exchange transactions.

### 8.6 Transitional provisions

8.6.1 Organizations are not required to change their accounting policies in respect of the recognition and measurement of revenue from non-exchange transactions, other than tax revenue,[2] for reporting periods beginning on a date within three years following the date of the first adoption of this standard. The Task Force on Accounting Standards recommends the application of transitional provisions to the extent necessary to achieve compliance with a particular IPSAS standard. The Secretariat may use transitional provisions for non-exchange revenue in order to achieve compliance with IPSAS 23.

## 9. IPSAS 9, Revenue from exchange transactions

### 9.1 Summary

This standard establishes the fundamental accounting policy under which the United Nations should account for revenue from exchange transactions, including any resulting assets. Revenue from non-exchange transactions is addressed separately under IPSAS 23.

[2] IPSAS 23.116 indicates that tax revenue is subject to a transitional period of five years. Non-tax (non-exchange) revenue is subject to a transitional period of three years. The United Nations does not receive any tax revenue.

### 9.2 Standard

9.2.1 An exchange revenue transaction for the United Nations is defined as one in which the United Nations receives resources, assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or the use of assets) to the other party in exchange.

Examples include: (a) the sale of goods to third parties such as sales from the United Nations Bookshop; (b) rental income from the use of United Nations conference rooms by others; and (c) interest revenue.

9.2.2 Revenue should be measured at the fair value of the consideration received or receivable. Where the consideration is cash or in a monetary amount, measurement will be at that amount.

*Revenue recognition*

9.2.3 Revenue is recognized when it is probable that future economic benefits or service potential will flow to the United Nations and those benefits can be measured reliably. No revenue is recognized unless those two primary conditions are met.

9.2.4 Revenue from the provision of services is recognized in the financial period in which the service is rendered, according to the estimated stage of completion of that service, provided that the outcome can be estimated reliably (i.e., if the stage of completion of the transaction at the reporting date, the costs incurred and the costs necessary to complete the transaction can be measured reliably).

9.2.5 Revenue from the sale of goods is recognized when the risks and rewards of ownership of the goods are passed from the seller to the buyer and when the related revenue and costs incurred can be measured reliably.

9.2.6 Interest income is recognized on a time proportion basis taking into account the effective yield on the asset. Royalty income is recognized as it is earned under the terms of the relevant agreement. Dividends are recognized when declared by the investee.

9.2.7 Revenue from operating leases is recognized according to the terms of the relevant lease agreement or, if no basis is specified, on a straight-line basis over the lease term.

9.2.8 All other revenues from exchange transactions are recognized on an accrual basis to the extent that the amount can be reasonably determined and receipt of consideration is probable.

*Swaps and exchanges*

9.2.9 Where goods or services are exchanged with an external party for other goods or services that are dissimilar in nature and value, the swap (exchange) is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods and services received, adjusted by the amount of any cash or cash equivalents transferred as part of the transaction.

9.2.10 When it is improbable that costs will be recovered, no revenue is to be recognized and the related costs are to be expensed.

### 9.3 United Nations disclosure

9.3.1 Disclosures should include each significant category of revenue recognized during the financial period, including those arising from the sale of goods, the rendering of services, interest, royalty and dividends. Furthermore, within each of these categories, the amount of revenue arising from the exchange of goods or services is to be identified.

### 9.4 Policy guidelines

9.4.1 An exchange revenue transaction for the United Nations is defined as one in which the United Nations receives resources, assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or the use of assets) to the other party in exchange.

9.4.2 Revenue is recognized when it is probable that future economic benefits or service potential will flow to the United Nations and those benefits can be measured reliably. No revenue is recognized unless those two primary conditions are met.

9.4.3 Revenue from the sale of publications, books or stamps is recognized when the sale occurs and risks and rewards have been transferred.

9.4.4 Revenue from the rendering of services is recognized when it is probable that future economic benefits will flow to the United Nations and the benefits can be measured reliably. United Nations offices charge fees or commissions on the provision of services to other offices. These charges can be received in cash either before the services are rendered or later, at different stages of completion of services. Revenue should be recognized on the basis of the estimated stage of completion of the service provided the outcome can be measured reliably.

9.4.5 Interest income is recognized on a time proportion basis taking into account the effective yield.

9.4.6 Any revenue from operating leases is recognized on a straight-line basis over the lease term.

9.4.7 Revenue is measured at the fair value of the consideration received or receivable on initial recognition. Where the consideration is cash or in a monetary amount, measurement will be at that amount.

# Expenses and liabilities

## 10. Expense recognition

### 10.1 Summary

Under IPSAS, no specific standard prescribes the accounting treatment of expenses and expense recognition. The accounting for this area arises from the fundamental principle of accrual-basis accounting. In accordance with IPSAS 1 (presentation of financial statements), under the accrual basis, expenses are recognized when the transaction or event causing the expense occurs. The recognition of the expense is therefore not linked to when cash or its equivalent is received or paid. An expense can result from a transaction that does not have to involve an outflow of cash. So, under this basis of accounting, the transactions and other events are recorded in the accounting records and recognized in the financial statements for the periods to which they relate. IPSAS 1 provides the additional definitions relevant to accounting for expense under the accrual basis. Specific types of expenses are dealt with directly by other standards — for example, IPSAS 17, for depreciation relating to property, plant and equipment; IPSAS 25, for employee benefits; and IPSAS 19, for increases in liabilities relating to provisions.

## 10.2 IPSAS approach

*Expenses*

10.2.1 Expenses are decreases in economic benefits during a reporting period in the form of outflows or consumption of assets or increases in liabilities that result in decreases in net assets, other than those relating to distributions to owners.

10.2.2 The types of expenses that the United Nations may report include, but are not limited to, the following:

(a) Employee costs;

(b) Transfers (grants under different funding arrangements);

(c) Cost of goods purchased or consumed;

(d) Cost of services;

(e) Travel costs; and

(f) Expenses due to finalized litigation claims.

10.2.3 Expenses such as the cost of goods or services, employee costs, transfers, travel costs and depreciation result in the consumption of assets such as cash, inventory and property, plant and equipment, or the increase in a liability such as an accrual or accounts payable. Expenses also result if a liability is recognized for a provision or when an asset is reduced owing to impairment.

10.2.4 A distinction should be made between the word "expense" and the word "expenditure" from an accounting perspective. It is helpful to restrict the use of the word "expenditure" to cash outlays. Expenditures may be cash outlays for capital assets (capital expenditures) or cash outlays for operating purposes (operating expenditures). A capital expenditure (for example, the purchase of a vehicle) generally does not immediately result in an expense, although expenses will follow later as the asset is consumed and depreciation or amortization expenses are accrued. An operating expenditure may follow an expense.

*Balance sheet approach and the delivery principle*

10.2.5 If an event makes the reporting entity "worse off", either by decreasing its assets or by increasing its liabilities, then an expense should be recognized.

10.2.6 Where expense recognition is linked to the increase in a liability, the criteria for the recognition of a liability are relevant. A key issue in this regard is whether a present obligation exists owing to a past event (see, notably, IPSAS 19 concerning the recognition of provisions).

10.2.7 In identifying whether a liability exists and whether a present obligation exists in relation to goods and services, under IPSAS the key consideration is the "delivery principle". Once goods or services have been received, the reporting entity has an obligation to pay for them. The obligation to pay is relatively unavoidable, and sufficient certainty exists to recognize a liability. A corresponding expense is recognized, unless the goods received relate to the delivery of an asset.

10.2.8 Therefore, in certain situations a key issue will be whether goods received should be capitalized and an asset recognized or, instead, whether an expense should be recognized. In those situations, the definition and recognition criteria for assets are relevant because expense recognition will result if those criteria are not met and an asset is not recognized. This is specifically the case concerning IPSAS 17 and the recognition of property, plant and equipment. If the criteria for the capitalization of an asset (including United Nations thresholds) are not met, an expense is recognized for the full amount once delivery has occurred.

10.2.9 The application of the delivery principle means that the receipt of an invoice or payment in cash is not the point at which expenses for goods or services will be recognized. The recognition of these expenses will occur once the goods and/or services are received; therefore, determining the receiving date becomes a crucial decision point. The receiving date for goods is normally the date of their physical receipt and acceptance. The criteria for determining the correct date of the receipt of goods should be governed by the transfer of ownership rights to the United Nations, which is based on international commercial terms (Incoterms). Services should be received on the date when services are certified as rendered. For service contracts, the receiving date is based on the actual receipt of deliverables specified in the contract, e.g., the achievement of milestones defined in the contract, or, in the case of a time-based contract, on the number of hours worked under the contract. The expense related to capitalized assets is booked when those assets are depreciated/amortized (property, plant and equipment and intangible assets) or consumed, distributed or sold (inventories).

10.2.10 Travel expenses for tickets, daily subsistence allowance and terminal expenses are booked on the date of the travel. Expenses related to the reimbursement of claims (excess baggage or related claims) would be booked at the time when the claim is received by the United Nations.

10.2.11 An entity may make use of a utility (for example, electricity) for a period before any invoice is received. However, the delivery of the utility has been made, and a corresponding liability (an accrual) and expense should be recognized. Conversely, an entity may pay in advance for a service long before delivery is made. In these cases, an advance payment asset is recognized, and expense is not recognized until delivery is received.

Finally, some situations may result in an expense not because a liability has been recognized and an asset has not been recognized, but because an asset already in existence has decreased in value. For example, this is relevant to the depreciation of property, plant and equipment (IPSAS 17), the amortization of intangible assets (IPSAS 31) and the impairment of assets (IPSAS 21). The table below summarizes some common expense situations.

| *Type of item* | *Expense amount* | *Examples* | *Recognition point* |
|---|---|---|---|
| Purchase of an item that is not capitalized | The cost of the item | Office supplies, utilities, plant and equipment below the capitalization threshold | Delivery of the item |
| Inventory | The cost of the item | Tools and spares that meet the definition of inventory | Inventory is sold and distributed, and control passes from the United Nations to the recipient. In addition, expense is incurred owing to the write-down of inventory (lower of cost and net realizable value or current replacement cost) |
| Depreciation of property, plant and equipment | Depreciation expense as determined by IPSAS 17: a part of the cost of asset | Depreciation on computers, vehicles, buildings | As the asset is used (over its useful life) |
| Impairment | Depends on the estimated decrease in the value of asset below its previous book value | Impairment affects a variety of different assets, including property, plant and equipment | An event (such as damage or obsolescence other than normal usage) that causes a drop in asset value |
| Salary and consulting expenses | Gross salaries or amount agreed upon in a contract for consulting services | Salary | Services are provided, with the result that the United Nations is obliged to remunerate the staff member or consultant |
| Provisions | The amount of the provision or increase in the provision as determined by IPSAS 19 | Provision for litigation | An obligation that is probable and can be reliably measured and exists as a result of a past event |

*Comparison with the United Nations System Accounting Standards*

10.2.12 The application of the delivery principle contrasts with United Nations System Accounting Standards accounting requirements. The United Nations System Accounting Standards allow an expense to be reported when an “unliquidated obligation” is documented.

10.2.13 An unliquidated obligation exists prior to the point at which goods or services are delivered, and can exist as early as the point at which a purchase order is made. Under IPSAS, a decision to purchase or the creation of a purchase order does not result in an obligation, because an organization is still able to change its mind and withdraw from the purchase.

10.2.14 Under IPSAS, unliquidated obligations are no longer recognized in the financial statements of the United Nations, although they may be disclosed in the notes to the financial statements. International Public Sector Accounting Standards require the disclosure of contractual commitments in the following cases:

(a) IPSAS 17.89 (d) requires the disclosure of contractual commitments to acquire property, plant and equipment;

(b) IPSAS 1.28, 1.129 and 1.132 require the disclosure of contingent liabilities and unrecognized contractual commitments;

(c) IPSAS 31.121 requires the entity to disclose the amount of contractual commitments for the acquisition of intangible assets;

(d) IPSAS 8.62 requires the entity to disclose the commitments in joint ventures;

(e) IPSAS 27.47 requires the entity to disclose the amount of commitments for the development and acquisition of biological assets;

(f) IPSAS 13.40 (c) requires the entity to disclose the total of future minimum lease payments;

(g) IPSAS 23.106 (c) requires the entity to disclose the amount of liabilities recognized in respect of transferred assets subject to conditions.

In order for goods and services to be properly recorded in line with IPSAS requirements and on the basis of the delivery principle, they are recorded within the materials management module of the enterprise resource planning system (Umoja) at the time of the delivery of goods and services. Delivery, and the corresponding expense recognition point, are confirmed by the validation of a service entry sheet. The materials management module also permits the recognition of advance payments. Travel expenses are recorded in accordance with IPSAS through the travel module.

*Specific issues*

10.2.15 Many United Nations system organizations give funds in advance to implementing partners (Governments, non-governmental organizations and other United Nations system organizations) in order for them to provide services for programmes. The services are generally provided to a target population by the implementing partner by way of financing received from the United Nations, and the implementing partner then reports to the United Nations progress made on a project or programme for which the agreement was signed. In general, the timing of expense recognition for these implementing partner arrangements will be based on delivery as evidenced in the reports from the implementing partners. The United Nations transfers money to the implementing partners and, in return, receives reports from them on the delivery of the requisite programme deliverables. At the same time, the United Nations does not:

(a) Receive any goods or services directly in return, as would be the case with a purchase/sale transaction;

(b) Expect to be repaid in the future, as would be the case with a loan;

(c) Expect a financial return, as would be the case with an investment.

These transfers can be considered non-exchange transactions, since the United Nations gives value to the recipient (other implementing partner) without directly receiving approximately equal value in exchange. The timing of expense recognition should be based on delivery as evidenced in the reports from the implementing partners. Such expenses should be recorded on the basis of the following expense categories:

(a) Staff and other personnel costs;

(b) Supplies, commodities and materials;

(c) Equipment, vehicles and furniture (including depreciation);

(d) Contractual services;

(e) Travel;

(f) Transfers and grants to counterparts;

(g) General operating and other direct costs; and

(h) Indirect support costs.

The above-mentioned transactions with implementing partners should be classified as transfers to implementing partners, which should not be confused with outright grants issued by the Organization. As opposed to such transfers to implementing partners, there are instances in which the Organization does provide an outright grant to the receiving entity, in which case the expense would be recognized in full upon the authorization of the grant. Examples of such grants would be funds provided to entities for quick-impact projects.

At the United Nations, this situation corresponds notably to Participation Programme and emergency assistance grants. Where the grant amount is transferred in full upon the approval of the agreement, the expense should be recognized on the basis of delivery as evidenced by reporting from implementing partners. In the case of implementation partnership agreements, if conditions are considered to be present in the agreement, transfers of grant amounts upfront are recognized as advance payments, with expense recognized as conditions, or terms of the agreement are fulfilled.

### 10.3 United Nations disclosure

10.3.1 The United Nations presents each material class of similar items separately in the statement of financial performance and does not offset revenues and expenses.

10.3.2 On the face of the statement of financial performance, the United Nations provides an analysis of expenses using a classification based on the nature of expenses.

10.3.3 Further details with regard to expenses are included in the notes to the financial statements, including specific disclosure requirements set out in individual IPSAS standards.

### 10.4 Policy guidance

10.4.1 Expenses are recognized in line with the overarching principles of accrual-basis accounting and with specific requirements set out in individual IPSAS standards. This entails taking a balance sheet approach to expense recognition and applying the delivery principle as appropriate.

10.4.2 An analysis of expenses by their nature is provided on the face of the statement of financial performance.

10.4.3 In order to ensure that expenses are correctly recorded in line with the delivery principle, purchases of goods and services are recorded on the basis of Incoterms.

10.4.4 Expenses related to transfers to implementing partners will be recognized on the basis of the delivery of the related services as evidenced by reporting. Such expenditures shall be recorded by nature. Where a transfer is deemed to be an outright grant with payment to the end beneficiary and reporting by nature is not required, the full amount shall be recorded as an expense at the point of the signature/confirmation of the arrangement. Arrangements relating to multi-year grants shall result in a contingent liability to be expensed at the beginning of the year of payment.

10.4.5 Expenses relating to employee benefits shall be recorded as the employee renders the qualifying service. Education grants shall be accrued over the school year; the related balance of the advance shall be classified as other current assets in the statement of financial position.

10.4.6 Expenses related to ex gratia payments shall be recorded as expenses in the financial year of the approval of the payments.

10.4.7 Cost recoveries will be recorded as a reduction of expenses; however, if the cost recovery is for indirect costs, revenue may be recorded.

10.4.8 Expense recognition in jointly controlled activities of the United Nations will occur as follows:

(a) Where all United Nations entities are acting on a parallel basis in the joint programme, expenses for the activity carried out by the United Nations will be recognized in the financial statements, on the basis of the delivery of related services as evidenced by reporting. In the absence of reports as at the date of the financial statements, accrual shall be made on the basis of the best estimate of services performed as at that date;

(b) Where a United Nations entity is acting as the main implementing agent (principal) and is responsible for project management, oversight and reporting, expenses related to transfers to other implementing partners should be recognized when the executing agent delivers the agreed services as evidenced in the reports. The executing agent reports expenses in accordance with the agreed schedule. Expenses reported by executing agents may or may not qualify for capitalization, depending on which implementing partner controls the asset and the capitalization threshold. If a United Nations entity controls the asset, then the asset will be recognized in the United Nations financial statements, and every year expense will be recognized in the form of depreciation and reduction in the value of the assets, during the useful life of the asset;

(c) Transfers up to $50,000 for the United Nations and peacekeeping operations and $30,000 for other reporting entities of the Secretariat volumes will qualify to be considered as transfers to end beneficiaries;

(d) Where a United Nations entity is merely acting as an agent and transferring the funds to other implementing partners under pass-through arrangements, revenue and expenses will not be recorded. Only the support charges, if any, will be recorded as non-exchange revenue.

## 11. IPSAS 19, Provisions, contingent liabilities and contingent assets

### 11.1 Summary

The objective of this standard is to identify the circumstances in which provisions, contingent liabilities and contingent assets should be recognized, how they should be measured and the required disclosure in the financial statements.

### 11.2 Standard

11.2.1 A payable should be recognized:

(a) When goods or services are received or supplied and invoiced or formally agreed upon with the vendor; and

(b) In respect of payments received from other organizations, at the time of the signing of formal agreements for specified amounts.

In the United Nations, for goods, the date received will be based on the Incoterms and the shipping documents.

*Provisions*

11.2.2 A provision should be recognized when:

(a) An entity has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

No provision would be recognized if these conditions are not met.

11.2.3 The amount recognized as a provision should be the best estimate of the expense required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision. Gains from the expected disposal of assets should not be taken into account in measuring a provision.

11.2.4 Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

11.2.5 A provision should be used only for expenses for which the provision was originally recognized.

11.2.6 Examples of provisions may include litigation, onerous contracts, restructuring provisions, warranties, refunds and site restoration costs.

For example, an organization is subject to legal proceedings seeking damages (present obligation) following an incident on its premises (past event). The organization disputes liability; however, its lawyers advise that it is probable that the organization will be found liable and will have to pay damages (probable outflow of resources). A provision should be recognized by the organization for the best estimate of the amount to settle the obligation.

11.2.7 A restructuring provision should include only the direct expenses arising from the restructuring, which are those that are both:

(a) Necessarily entailed by the restructuring; and

(b) Not associated with the ongoing activities of the entity.

11.2.8 If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract should be recognized and measured as a provision.

For example, a mission is wound up before its commitments expire on a lease for a building that it occupied. The organization should recognize upfront the cost of all future payments related to the lease, less any subletting revenue that it may obtain.

11.2.9 No provisions are to be recognized for net deficits from future operating activities.

11.2.10 Provisions that are in the nature of allowances, to more accurately value current and non-current assets, are generally dealt with separately in the areas of this policy framework that address those particular assets. Such allowances (contra assets) include, but are not necessarily limited to, allowances for the impairment of investments and allowances for doubtful accounts on accounts receivable and write-down of inventories.

*Contingent liabilities*

11.2.11 A contingent liability requires only disclosure in the notes to the financial statements, not recognition on the face of financial statements. It is a possible obligation that arises from past events but 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 United Nations, or a present obligation that arises from past events but is not recognized because:

(a) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(b) The amount of the obligation cannot be measured with sufficient reliability.

11.2.12 Unless the possibility of any outflow in settlement is remote, the United Nations should disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability.

As in the previous example, an organization is subject to legal proceedings seeking damages (present obligation) following an incident on its premises. Again, the organization disputes liability, and this time its lawyer advises that it is probable that the organization will not be found liable. In this case, no provision is recognized by the organization. The matter is disclosed as a contingent liability unless the probability of an outflow is regarded as remote.

*Contingent assets*

11.2.13 A contingent asset is a possible asset 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 United Nations.

11.2.14 Contingent assets require disclosure only if the inflow of economic benefits or service potential is probable. Contingent assets are never recognized on the face of the financial statements.

At the United Nations, certain contribution agreements may give rise to contingent assets where the receipt of future instalments is dependent upon future events not wholly within the control of the United Nations. Where the inflow of economic benefits or service potential is considered probable, a contingent asset will be disclosed.

For example, a contingent asset for pledges could occur between the point at which a pledge has been given and the point at which either funds are received or a formal pledge document, which has been duly authorized, is received.

*Summary*

11.2.15 A summary of guidance as to whether a provision should be recognized or a contingent liability disclosed for a present obligation is provided in the table below.

| | | *Likelihood of an outflow of economic resources* | | | |
|---|---|---|---|---|---|
| | | *Certain* (close to 100% probability) | *Probable* (at least 50/50 probability) | *Improbable* (less than 50/50 probability) | *Remote* (significantly less than 50/50 probability) |
| *Amount can be reliably measured or estimated* | *Yes* | Liability should be recognized as accounts payable or accrual | Provision to be recognized | Contingent liability disclosed; no provision recognized | No provision recognized or contingent liability disclosed |
| | *No* | Disclosed as a contingent liability | Contingent liability disclosed; no provision recognized | Contingent liability disclosed; no provision recognized | No provision recognized or contingent liability disclosed |

11.2.16 A possible obligation should be disclosed as a contingent liability unless the likelihood of an outflow in settlement is remote.

*Specific issue of land restoration claims*

11.2.17 When exiting and closing a mission, the United Nations sometimes takes on the obligation to restore the land and premises to their original state. There is a limit to liabilities incurred and compensation paid, as part of its constructive obligation, by peacekeeping missions to third parties, because the host Government assumes partial liability for operations.

11.2.18 In order to identify and recognize the obligation, the provisions of the relevant General Assembly resolution, status-of-forces agreements and the terms of reference of the Claims Review Board related to restoration costs need to be reviewed. If a present obligation exists, the outflow of resources to settle that obligation is probable and a reliable estimate has been established, then the field mission must recognize the liability for restoration costs.

11.2.19 Obligations for the restoration costs of land or premises shall be either accounted for as a provision under liabilities in the statement of financial position or disclosed as a contingent liability in the financial statements. Liabilities that meet all three requirements, as stated in paragraph 11.2.18 above, for the recognition of provisions will be disclosed as provisions in the statement of financial position. Where the related asset exists, the corresponding amount must be capitalized or otherwise expensed. Changes in land value would constitute a change in accounting estimates and must be disclosed in the financial statements.

11.2.20 Contingent liability shall be disclosed for “possible” or “present” obligations when the provision recognition criteria are not met.

11.2.21 In the first year of the implementation of IPSAS, claims approved by the Claims Review Board shall be reported as either provisions or contingent liabilities in the financial statements of the United Nations, depending on the facts of the case. Claims submitted but not yet approved by the Board will be assessed for recognition as provisions or for disclosure as contingent liabilities if they meet the corresponding criteria.

*Specific issue of self-health insurance claims*

11.2.22 Instead of paying contributions to a third-party health insurance company, the United Nations self-insures its employees. The benefits are provided to active employees and retirees and are administered through New York-managed self-health insurance funds and the Geneva-managed United Nations Staff Mutual Insurance Society.

11.2.23 The obligation to provide the entitlements for coverage of health expenses is generated when a Secretariat entity enters into an agreement with the United Nations Staff Mutual Insurance Society or a New York self-health insurance fund, and when a staff member becomes a member of the Society or the fund. In order to identify and recognize the provisions in self-health insurance schemes, the United Nations should have information on claims submitted after year-end that relate to prior years and historical information on average claims per year.

11.2.24 Given the circumstances of the self-insured health insurance and the current administrative arrangements, the United Nations has a constructive obligation for the entire liability, not only for the share of its own employees, but for the entire liability of medical insurance claims.

*United Nations disclosure*

11.2.25 Provisions are reported on the face of the financial statements, and details are disclosed in the notes to the financial statements. For each class of provision, the United Nations shall disclose:

(a) The movement of the provisions during the financial period; and

(b) A brief description of the nature of the obligation and the expected timing of the outflows.

11.2.26 Disclosure for contingent liabilities should comprise a brief description of the nature of contingent liabilities and, where practicable, an estimate of the financial effect and an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursements.

11.2.27 Disclosure for contingent assets should include a brief description of the nature of the contingent assets and, where practicable, an estimate of their financial effect.

## 11.3 Policy guidance

11.3.1 In accordance with IPSAS, the United Nations records an obligation as a legal obligation or a constructive obligation.

11.3.2 A legal obligation is an obligation that derives from a contract (through its explicit or implicit terms), legislation or other operation of law.

11.3.3 A constructive obligation is an obligation that derives from an entity's actions whereby, through an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and, as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

In terms of materiality, the largest impact of IPSAS 19 is the removal of "purchase orders" from the face of the financial statements, since they do not qualify as liabilities until delivery occurs. Information on purchase orders will still be collected and reported in the budget accounts, but it will no longer be shown on the face of the financial statements, but rather in the notes to the financial statements.

11.3.4 The United Nations will recognize a provision when all three of the following criteria are met:

(a) An entity has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

11.3.5 Provisions do not include allowances (contra assets), which deal separately with the value of current and non-current assets.

11.3.6 Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the United Nations.

11.3.7 Possible assets arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the United Nations and where the inflow of economic benefits or service potential is probable, are disclosed in the notes to the financial statements as contingent assets.

## 12. IPSAS 25, Employee benefits

### 12.1 Summary

This standard proposes accounting and disclosure requirements for employee benefits, including short-term benefits, post-employment benefits, termination benefits and other long-term benefits, except for share-based transactions and employee retirement benefit plans.

### 12.2 Standard

12.2.1 Employee benefits comprise all consideration given by an entity in exchange for service rendered by employees. IPSAS 25 defines four categories of employee benefits:

(a) Short-term employee benefits;

(b) Post-employment benefits;

(c) Other long-term employee benefits; and

(d) Termination benefits.

12.2.2 Employee benefits include benefits provided to the employees and/or their dependants and may be settled by payments made directly to the employees, to their spouses, children or other dependants or to others (e.g., insurance companies).

### 12.3 Short-term employee benefits

12.3.1 Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the period in which the employee renders the related service.

12.3.2 When an employee has rendered service to the United Nations during a financial period, the United Nations shall recognize an expense for the short-term employee benefits to be paid in exchange for the service. A liability is recognized corresponding to the unpaid amounts.

12.3.3 Short-term employee entitlements include:

(a) Wages and salaries;

(b) Short-term compensated absences (i.e., paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the period in which the employee renders the related service; and

(c) Non-monetary benefits such as medical care and housing subsidies.

12.3.4 The United Nations shall recognize the expected cost (liability) of compensated absences as follows:

(a) In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences (number of days per every full calendar month of work); and

(b) In the case of non-accumulating compensated absences, such as sick leave, when the absences occur (expensed).

12.3.5 Accumulating compensated absences may be either vesting (when employees are entitled to cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to cash payment for unused entitlement). The United Nations shall measure the expected cost of accumulating compensated absences as the additional amount that it expects to pay as a result of the unused entitlements that have accumulated at the reporting date. IPSAS 25 specifically states, in respect of accumulated non-vesting sick leave, that a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid vacation; this is not currently a United Nations policy.

12.3.6 According to IPSAS 25, maternity leave, paternity leave, sabbatical leave and adoption leave are non-accumulating compensated absences. Indeed, non-accumulating compensated absences do not carry forward: they lapse if the current period’s entitlement is not used in full, and they do not entitle employees to a cash payment for unused entitlement on leaving the entity. For these benefits, it is not necessary to recognize a liability or expense until the time of the absence, because the employee service does not increase the amount of the benefit.

12.3.7 At the closing date of the financial period, the entity must accrue expenses and related liabilities for each type of short-term employee benefits where the service has been rendered by the employee but no outflow has been given to the employee.

12.3.8 Accruals for home leave, family visit, overtime and other short-term benefits are calculated directly by the United Nations.

## 12.4 Post-employment benefits

12.4.1 Post-employment benefits are benefits that are payable after the completion of employment, except for benefits directly associated with a termination plan.

12.4.2 Post-employment benefit plans (such as pensions and post-employment medical care) are categorized as either defined contribution plans or defined benefit plans.

12.4.3 Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions to a separate entity and has no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior financial periods. Under defined contribution plans, expenses are recognized in the period in which the contribution is payable. Accrued expenses, after any contribution already paid has been deducted, are recognized as a liability.

12.4.4 Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and, if any, by the employee) to a post-employment benefit plan or to an insurance company, together with investment income arising from the contributions. The entity's share of these contributions shall be recognized as an expense in the statement of financial performance. The actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

12.4.5 Defined benefit plans are post-employment benefit plans other than defined contribution plans under which an entity pays agreed contributions to a separate entity or special fund internally. The entity's legal obligation is to provide the agreed benefits to current and former employees. The actuarial risk and investment risk fall on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

12.4.6 Accounting for defined benefit plans involves:

(a) Using actuarial techniques to make reliable estimates of the amount of benefits that staff members have earned in return for their service in the current and prior periods;

(b) Discounting that benefit using the projected unit credit method to determine the present value of the defined benefit obligation and the current service cost;

(c) Determining the fair value of any plan assets at the reporting date;

(d) Determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognized;

(e) Where a plan (if ever) has been introduced or changed, determining the resulting past service cost; and

(f) Where a plan (if ever) has been curtailed or settled, determining the resulting gain or loss.

12.4.7 Post-employment benefits that exist at the United Nations include the United Nations Joint Staff Pension Fund, after-service health insurance, repatriation benefits (repatriation grant, travel and shipment expenses/relocation grant on separation from service), severance benefits and injury or death benefits.

### 12.5 Other long-term employee benefits

12.5.1 Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within 12 months after the end of the financial period in which the employees render the related service.

12.5.2 Annual leave is another long-term employee benefit that exists at the United Nations.

12.5.3 Other long-term employee benefits shall be recognized and measured the same way as post-employment benefits under a defined benefit plan. However, unlike defined benefit plans, in accounting for other long-term employee benefits:

(a) Actuarial gains and losses are recognized immediately; and

(b) All past service cost is recognized immediately. The introduction of or changes to other long-term employee benefits rarely give rise to a material amount of past service cost.

12.5.4 The amount recognized as a liability for other long-term employee benefits shall be the net of the following amounts:

(a) The present value of the defined benefit obligation at the reporting date;

(b) Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

### 12.6 Termination benefits

12.6.1 An obligation arises at the termination of service rather than during the employee's service. Termination benefits shall be recognized as an expense and a liability when the entity is demonstrably committed to either:

(a) Terminating the employment of an employee or group of employees before the normal retirement date; or

(b) Providing termination benefits as a result of an offer made in order to encourage voluntary redundancy.

### 12.7 Entitlement

12.7.1 At the United Nations, there are a wide variety of employment contracts and employment relationships. Employees may be on temporary, fixed-term, continuous or permanent contracts. For the purposes of IPSAS accounting, employees are considered to be individuals providing services to an entity on a full-time, part-time, permanent, casual or temporary basis. In addition, the United Nations should consider all such arrangements and review them in accordance with IPSAS 25, Employee benefits, where the organization is exposed to risks consistent with a contract of employment, regardless of whether there is an actual arrangement in place or whether the employment agreement is provided by another United Nations organization. Following the assessment made with the above-mentioned criteria, staff and United Nations Volunteers fall under the definition of employees. In accordance with the Staff Regulations of the United Nations, "staff" shall refer to "all the staff members of the Secretariat, within the meaning of Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter". United Nations Volunteers are not staff members, but are accorded the normal privileges and immunities required for the independent exercise of their functions during their assignment, and are provided with identification materials reflecting such status. Other than their contractual differences, no distinction should be made between the United Nations Volunteers and other United Nations staff.

12.7.2 Entitlement to employee benefits described above depends on the form and type of employment contract that each individual holds.

12.7.3 For employee benefits purposes, United Nations staff should be categorized into international and locally recruited staff. Staff post categories include Director, Principal Officer, Professional, General and Field Service staff.

### 12.8 Actuarial calculations

12.8.1 Actuarial calculations, based on external actuarial studies, are performed for after-service health insurance, repatriation benefits and accumulated annual leave.

### 12.9 United Nations disclosure

12.9.1 This standard does not require specific disclosures about short-term and other long-term employee benefits, but IPSAS 20 requires the disclosure of the aggregate remuneration of key management personnel, and IPSAS 1 requires the disclosure of information about employee benefits.

12.9.2 The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The United Nations, like the other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated the plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The United Nations contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

12.9.3 The United Nations should disclose:

(a) The fact that the plan is a defined benefit plan;

(b) The reason why sufficient information is not available to permit accounting for involvement in the plan on a defined-benefit basis (i.e., why either the “access to information” or the “reliable allocation” exception applies) (IPSAS 25, para. 33 (b));

(c) To the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition (IPSAS 25, para. 33 (c)):

(1) Any available information about that surplus or deficit;

(2) The basis used to determine the surplus or deficit;

(3) The implications, if any, for the entity. For example, in July 2012 the United Nations Joint Staff Pension Board noted, in its report on its fifty-ninth session to the General Assembly, that it was ready to decide to increase the normal age of retirement for new participants in the Fund with effect from no later than 1 January 2014. Consequently, with effect from 1 January 2014, the United Nations and its new participants to the Fund are required to contribute for a longer period in order to be a recipient of the defined pension benefit;

(d) The contribution amount recognized as an expense (IPSAS 25, para. 57);

(e) The contribution amount to the plan fund for key management personnel.

12.9.4 IPSAS has specific provisions for such multi-employer defined benefit plans, effectively requiring full disclosure of the nature of the obligation but recognizing liabilities only for contributions owed. As a result, although the United Nations Joint Staff Pension Fund is categorized as a defined benefit plan, it qualifies to be accounted for as a defined contribution plan under IPSAS.

12.9.5 At the United Nations, after-service health insurance, repatriation benefits, appendix D death and injury benefits, pension benefits for judges of the International Court of Justice or former Secretaries-General and accumulated annual leave as post-employment or other long-term benefit plans will be accounted for as a defined benefit plan. In respect of defined benefit plans, the following should be disclosed in the financial statements:

(a) The accounting policy for recognizing actuarial gains and losses;

(b) For each major category of plan assets, including equity instruments, debt instruments, property and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets;

(c) The amounts included in the fair value of plan assets for each category of the financial instruments of the United Nations itself;

(d) A description of the basis used to determine the expected rate of return on assets and the actual return on plan assets;

(e) The principal actuarial assumptions used as at the reporting date;

(f) The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates; and

(g) The best estimate of contributions expected to be paid to the plan during the annual period beginning after the reporting date.

12.9.6 For other long-term employee benefits, no other specific disclosures are required. The annual leave benefit will be accounted for as other long-term benefit. For presentation purposes, the liability will be split into current and non-current. The United Nations will disclose the portion as a current liability where the United Nations could be obliged to make payments within the next 12 months.

12.9.7 The Secretariat administers the benefit schemes of many participating organizations; it is recommended that information be disclosed in the notes to the financial statements on the nature and circumstances of the arrangements with participating organizations, so that the reader can understand the benefits that the liabilities cover.

## 12.10 Policy guidance

12.10.1 Proposed accounting treatment for employee benefits at the United Nations is set out in the tables below.

### Short-term benefits

### First-time/reassignment employee benefits

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
|---|---|---|
| Assignment grant | Any payment provided in advance of the date of first appointment is a prepayment | Accrue the undiscounted amount owed for staff members who have reported for work but have not been paid as at the reporting date. The accrual will be based on the letter of appointment entitlement |
| Initial shipment (if other country) | As above for assignment grant | For lump sum payments, same as assignment grant above<br><br>For reimbursed expenses, accrue the undiscounted amount owed on the basis of invoices received, or, if there are no invoices, use the lump sum entitlement as a proxy |
| Travel | As above for assignment grant | As above for initial shipment |
| Rental agent/broker's fee | When a staff member claim is submitted and confirmed | Use amount claimed by staff member and approved |

### Regular monthly benefits

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
|---|---|---|
| Salary and post adjustment<br><br>Organization contributions to medical insurance plans for active staff<br><br>Mobility allowance<br><br>Non-removal allowance<br><br>Hardship allowance<br><br>Monthly subsistence allowance<br><br>Special operations living allowance<br><br>Special allowances for higher post<br><br>Special allowance for interpretation | The expense will be recognized when the entitlement is recognized as evidenced by a personnel action authorizing/recognizing and when the service is performed<br><br>All regular monthly benefits accrue and are processed as part of the monthly payroll run as staff members render their service<br><br>Some items, such as rental subsidy, may be withheld until eligibility criteria are met, at which point any back payments are made within the payroll period in which eligibility is established | As the payroll run as at 31 December captures all entitlements to that date, no further accrual or prorating of entitlements will be required (if payment were delayed for any reason, an accrual would reflect any unpaid monthly entitlement as at year-end) |

| Entitlement | When to recognize expense (and liability where applicable) | Measurement of year-end liability |
|---|---|---|
| Rental subsidy | | |
| Danger pay | | |
| Language allowance | | |
| Spouse dependency allowance | | |
| Dependent children allowances | | |
| Secondary dependant allowances | | |

**Education benefits**

| Entitlement | When to recognize expense (and liability where applicable) | Measurement of year-end liability |
|---|---|---|
| Education grant | Recognize expense evenly over the school year. This requires:<br>• For payments in advance, recognizing a prepayment when the advance is actually made, and spreading the expense evenly over the school year<br>• For payments in arrears, recognize expense when grant claim is approved, as evidenced by personnel action. The expense in the current period is for the portion of payment relating to the school term that has already passed. A prepayment is recognized for the portion relating to school year still to be completed | Accrue the portion for the school year that has already passed for unpaid claims that have been submitted and approved<br>For prepayments, decrease the prepayment by the portion of the school year that has already passed<br>If past experience shows that a significant portion of education grant is claimed and paid in arrears, an estimate of education grant expense/liability should be recognized at the end of the year for the portion of the school year that has already passed |
| Education grant travel (scholastic travel for children) | For the lump sum and actual expenses options, recognize when the travel request is approved (the United Nations is obligated to provide the validated travel regardless of how that travel is eventually undertaken) | If material, accrue the undiscounted amount owed for travel claims or requests that have been approved but have not been paid as at the reporting date |

| Entitlement | When to recognize expense (and liability where applicable) | Measurement of year-end liability |
|---|---|---|
| | In addition, recognize an estimate for the return leg as a liability for year-end purposes. This is because the United Nations is responsible for returning the student to the duty station even if the staff member resigns (i.e., it is the employee service rendered when the claim is submitted that creates the entitlement, not continued service) | |

**Bonus payments**

| Entitlement | When to recognize expense (and liability where applicable) | Measurement of year-end liability |
|---|---|---|
| Safe driving bonus payments | Expense is recognized when bonus is approved | Accrue any bonuses approved but not yet paid |

**Other short-term benefits**

| Entitlement | When to recognize expense (and liability where applicable) | Measurement of year-end liability |
|---|---|---|
| Family visit | When the eligibility criteria are met as evidenced by a personnel action (i.e., authorization for family visit), the obligation arises<br><br>Recognize a liability for the return trip at the same time | Accrue estimated cost of any authorized visits that have not been paid out at year-end |
| Rest and recuperation | When the eligibility criteria are met as evidenced by a personnel action (i.e., authorization for rest and recuperation visit), the obligation arises<br><br>Recognize a liability for the return trip at the same time | Accrue estimated costs of any authorized visits that have not been paid out at year-end |
| Reimbursement of taxes | Expense to be recognized uniformly over the calendar year as the staff member renders the service<br><br>Accrue an estimate of the tax reimbursement obligation as the staff member renders the service | Accrue liability on the basis of estimated tax payments relating to the reporting year that will be paid in the subsequent year |
| Maternity leave<br><br>Adoption leave<br><br>Paternity leave | Recognize expense as the leave is taken, i.e., as part of the payroll run | Maternity, adoption, paternity leave and other non-accumulating compensated absences generally do not qualify for payment to an |

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
|---|---|---|
| Compensatory time off for overtime (non-accumulating compensated absences) | | employee in the event of separation or retirement, so there is no obligation to pay an amount to the employee for those absences. There is no requirement to capture those leave entitlements as part of salary and wages |
| Sick leave (accumulating compensated absences) | Recognize expense as the leave is taken, i.e., as part of the payroll run | Fixed-term and continuing-term staff at the United Nations are entitled to accumulate sick leave absences for three months and nine months, respectively. At the end of the year, the United Nations potentially has a liability relating to paid future absences of staff members on sick leave, which is dependent on a future event beyond the control of the staff member as well as the Organization (certification of illness by a doctor). But sick leave generally does not qualify for payment to an employee in the event of separation or retirement. In addition, sick leave cannot be taken as paid vacation if it is not used. Consequently, there is no obligation to pay an amount to the employee for unused sick leave. Thus, the United Nations will not recognize any employee liability relating to sick leave |
| Home leave | In the period in which the staff member performs the service that increases the entitlement. In practice, this is evenly spread over either the one-year or the two-year period prior to the leave being vested<br><br>The expense is limited to the next home leave entitlement. It does not capture potential home leave entitlements beyond this period, as such future entitlements are related to future service by the staff member, not current service | Accrue the liability on the basis of the estimated amount of entitlement earned during the period that has not been paid out before year-end, e.g., 25 per cent of the expected future cash outflow if the staff member has 18 months remaining before the entitlement is vested. No home leave accrual will be booked for contracts with expiry dates before the home leave accrues, as any obligation is contingent on the Organization choosing to renew the contract |

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
| --- | --- | --- |
| Sabbatical leave (non-accumulating compensated absences) | Recognize expense (consideration or salary paid while on sabbatical) as the leave is taken, i.e., as part of the payroll run | Sabbatical leave generally does not qualify for payment to an employee in the event of separation or retirement, so there is no obligation to pay an amount to the employee for such absences. There is no requirement to capture such leave entitlement as part of salary and wages |
| Malicious acts insurance plan premiums | Cost of premium is expensed evenly over the insured year (the 12-month period covered by the premium) | Any premium due but unpaid at financial year-end is accrued as a liability to the insurer. Any unexpired portion of the premium at financial year-end is a prepayment. The malicious acts insurance plan is recorded as an operating expense rather than as an employee benefit |
| Low (or no) interest advances and loans | Recognize expense as the value of interest forgone when an advance is provided | Not applicable |

**Post-employment benefits**

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
| --- | --- | --- |
| Pension (United Nations Joint Staff Pension Fund) | When the United Nations is obligated to provide contributions to the Fund | Treated as a defined contribution plan. Accrue any unpaid contributions at balance sheet date |
| After-service health insurance, the benefit provided to retirees of the United Nations (coverage of employer premiums) | The obligation to provide this entitlement is generated:<br>• When eligible staff members report for service<br>• In the period that service is rendered by the staff member that increases their entitlement<br>In practice, the entitlement commences when staff members with eligible contracts start to work for the United Nations | Actuarially determining the present value of the defined benefit obligation according to the projected unit credit method[a]<br>This valuation takes into account the probability that a staff member will not realize this entitlement as a result of factors such as death or leaving before the entitlement is vested |

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
|---|---|---|
| End-of-service entitlements:<br>Repatriation grant<br>Relocation grant/shipping costs<br>Travel expenses | The obligation to provide these entitlements is generated when staff members report for service at a duty station that entitles them to repatriation benefits | Actuarially determining the present value of the defined benefit obligation according to the projected unit credit method[a]<br>This valuation takes into account the probability that at the end of service, the staff member's duty station is his or her repatriation destination |
| Death benefit | The obligation is generated when an eligible staff member dies, in return for post-employment benefits, which an entity expects to pay in the future reporting periods | Actuarially determining the present value of the defined benefit obligation according to the projected unit credit method[a]<br>For periodic death benefit payments, the present value of expected payments |
| Compensation in the event of death, injury or illness attributable to the performance of duties | The obligation is generated when the compensation is approved in accordance with Staff Rules procedures | Actuarially determining the present value of the defined benefit obligation according to the projected unit credit method[a]<br>The present value of expected compensation payments<br>The long-term disability benefit is subject to uncertainties similar to those to which the death benefit is subject, and should therefore be classified as a post-employment benefit |

[a] The projected unit credit method considers expected future pay increases in the calculation of liability and normal cost.

*Note*: The rules set out in appendix D to the Staff Rules govern compensation in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations. Compensation payable for partial or total disability during the performance of official duties is calculated using the following steps:

(a) First, calculate the compensation payable under article 11 of appendix D;

(b) Secondly, deduct from the annual compensation due the dependants the amount received by the dependants from the United Nations Joint Staff Pension Fund, other than the benefits from voluntary contributions. A staff member who is a member of the Fund is entitled to receive payments under the Fund when certain conditions are fulfilled. Therefore, if a staff member or his or her dependant is receiving payment from the Fund, the compensation under article 11 of appendix D is reduced.

**Other long-term employee benefits**

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
|---|---|---|
| Annual leave | Recognize liability in the period in which the staff member performs the service that increases the entitlement. In practice, the annual leave entitlement is recognized evenly over the year starting from the date of appointment, i.e., if there is an entitlement of 30 days' leave for the year ending 31 December, the annual expense will equal 30 days | Annual leave is considered long-term because of its accumulating nature and the last-in, first-out approach to its use. Thus, the liability is best reflected as the actuarial value of the payout amount of annual leave upon separation from the Organization. Annual leave is measured as a post-employment benefit that can be split into short- and long-term for financial statement presentation |

**Termination benefits**

| *Entitlement* | *When to recognize expense (and liability where applicable)* | *Measurement of year-end liability* |
|---|---|---|
| Termination indemnity | Recognize liability when a termination event occurs, e.g., the United Nations gives a staff member notice that the contract will be terminated early or, if a number of staff are terminated, when a detailed plan for termination exists (including estimates of number of staff members, benefits payable and timing) | Expected additional cash outflows arising from the termination event to the extent of approved termination indemnity |
| Payment in lieu of notice | When a termination event has occurred and approval is given for a payment in lieu of notice | Expected additional cash outflows arising from the termination event, i.e., over and above what has already been recognized and measured under other benefit categories |

12.10.2 Corporate bond rates are to be used as the basis for determining the applicable discount rates in valuing employee benefits that are discounted.

12.10.3 The corridor approach will not be used for reporting the expense or income that arises from actuarial gains and losses in accounting for defined benefit plans; all actuarial gains and losses will be immediately recognized in the statement of changes in net assets/equity through reserves.

12.10.4 Ex gratia payments to non-employees for death or injury are recognized when approved on the basis of the present value of the expected payments.

# Assets and valuation

## 13. IPSAS 17, Property, plant and equipment

### 13.1 Summary

This standard describes how to capitalize, record, maintain, depreciate, dispose of and disclose property, plant and equipment acquired and held by the United Nations.

### 13.2 Standard

13.2.1 Property, plant and equipment are tangible items that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) Are expected to be used during more than one reporting period.

13.2.2 Items of property, plant and equipment shall be recognized as assets when:

(a) It is probable that the future economic benefits or service potential associated with the item will flow to the United Nations;

(b) The United Nations has control over the assets; and

(c) The cost or fair value of the item can be measured reliably.

13.2.3 Initial recognition of property, plant and equipment should be measured at cost. However, upon the adoption of accrual accounting for the first time in accordance with IPSAS, the initial recognition of property, plant and equipment shall be at cost or fair value.

13.2.4 In subsequent reporting periods, property, plant and equipment will be valued at cost less accumulated depreciation and any impairment losses. When cost valuation is difficult to apply, replacement cost may be used.

In moving to IPSAS, for first-time recognition of assets for opening balance purposes, the United Nations recognizes existing assets at either cost or fair value. Acquisitions subsequent to the adoption of IPSAS shall be recorded and recognized at cost.

13.2.5 Total cost consists of the asset purchase price, generally the invoice price (less discounts), import duties and non-refundable purchase taxes, any directly attributable costs (such as the cost of site preparation, initial delivery and handling or installation costs) of bringing the asset into working condition for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site. Total cost does not include any refundable taxes or other similar refundable costs. In the determination of the cost of an asset, associated costs such as freight, import duties, insurance and other costs could be determined by applying a standard cost methodology to the cost of an acquired asset. In the specific case of assets under construction, valuation using the depreciated replacement cost method will be used instead of costs. Where an asset is acquired at no cost (gifted, contributed or donated) or for a nominal cost, then the fair value of the asset at the date of acquisition is used.

13.2.6 Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. In the case of value at the recognition date and in the absence of readily available information, a fair value surrogate can be based on a market price for an identical or similar asset. Fair value can also be determined by a registered appraiser. These are some examples for determining fair value; other approaches could be used to arrive at the value of an asset acquired by the United Nations.

13.2.7 In the case of the exchange of unlike assets or the trade-in of assets, the cost is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash transferred.

13.2.8 This standard does not require the recognition of heritage assets that would otherwise meet the definition of property, plant and equipment.

*Criteria for asset capitalization*

13.2.9 In order to meet the criteria for capitalization and depreciation, assets should be controlled by the United Nations as a result of past events through purchase, construction or donation. Future economic benefits or service potential should be expected to flow to the United Nations as a result.

In addition to the above conditions, all of the following conditions must be met to capitalize an asset of the United Nations:

- The asset has a useful life of more than one year;
- The asset meets the minimum established cost threshold of $5,000 or more per unit for all reporting entities other than the United Nations and peacekeeping operations. For example, the purchase of 10 chairs at a cost of $500 each will not qualify;
- For the United Nations and peacekeeping operations, the threshold is set at $20,000, and for certain assets noted in paragraph 13.4.3 below, the United Nations will seek to set the threshold at a lower value.

13.2.10 Control over assets arises when an entity can:

(a) Use or otherwise benefit from the asset in pursuit of its objectives; and

(b) Exclude or otherwise regulate the access of others to that benefit.

In order for assets to be recorded as assets in the United Nations accounting records, they must be controlled by the Organization. This is particularly relevant to project assets. The following checklist assists in determining the existence of control:

- The act of purchasing the asset was carried out (or resulted from instructions given) by the United Nations;
- The legal title is in the name of the United Nations;
- The asset is physically located on premises or at locations used by the United Nations;
- The asset is physically used by staff employed by the United Nations or staff working under United Nations instructions;

- Can the United Nations decide on alternative uses for the asset?
- Is it the United Nations that decides to sell or dispose of the asset?
- If the asset were to be removed or destroyed, would the United Nations take the decision to replace it?
- Does a United Nations representative regularly inspect the asset to determine its current condition?
- Is the asset used in achieving the objectives of the United Nations?
- Will the asset be retained by the United Nations at the end of the project?

Professional judgement should be exercised to determine whether the entity has control over an asset. The indicators listed above will help in reaching a conclusion in that regard.

*Transitional provisions*

13.2.11 IPSAS allows organizations adopting the Standards to opt for a grace period of up to five years for the recognition of property, plant and equipment. The Task Force on Accounting Standards recommends the application of transitional provisions to the extent necessary to achieve compliance with a particular IPSAS standard. The Secretariat may use transitional provisions for leasehold improvements, project assets, assets acquired through finance leases, self-constructed assets and the componentization of major owned buildings; the United Nations may also use transitional provisions for other types of property, plant and equipment in order to achieve compliance with IPSAS 17.

*Initial recognition*

13.2.12 Opening balances valuation of property, plant and equipment will be completed as follows: (a) Real estate and buildings will be valued for opening balances using the fair value method at the time of IPSAS implementation, while (b) plant and equipment will be valued using the cost method.

13.2.13 The United Nations shall recognize the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of net assets for the period in which the property, plant and equipment is initially recognized.

13.2.14 Long-term donated rights to use premises meeting criteria specified in paragraphs 8.4.9 and 8.4.10 above shall be initially recognized as property, plant and equipment.

13.2.15 Donated property, plant and equipment will be recognized as an asset at fair market value or a reasonable proxy of market value at the date of acquisition.

*Items below the property, plant and equipment recognition threshold*

13.2.16 If an asset does not meet the property, plant and equipment capitalization criteria, it will be fully expensed in the financial period in which it was acquired (in addition, see para. 15.2.1 below).

*Subsequent expenses*

13.2.17 Subsequent capitalizable expenses are major renovations and improvements to property, plant and equipment. They are considered to increase the future economic benefits or service potential of the asset. Subsequent expenses should improve the condition of the asset, measured over its estimated useful life, beyond its most recently assessed standard of performance. Regular repairs and maintenance to keep the asset operational are generally not considered property, plant and equipment.

13.2.18 In order to be capitalized, subsequent expenses, must meet both of the following conditions:

(a) The relevant property, plant and equipment must have a remaining estimated useful life of more than one year after the completion of the expense; and

(b) The cost of the subsequent expense must exceed the cost threshold applicable to the class of assets.

*Heritage assets*

13.2.19 Some assets are described as “heritage assets” because of their cultural, educational or historical significance; examples include works of art, monuments and historical buildings. Many public sector entities, including the United Nations, have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation and bequest. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for that purpose. Their value in cultural, educational and historical terms is unlikely to be fully reflected in a financial value; they are often irreplaceable, and it is difficult to estimate their useful lives.

13.2.20 Under IPSAS, the recognition of heritage assets is not required in the financial statements.

*Depreciation*

13.2.21 The United Nations uses the straight-line depreciation method in accordance with the recommendation of the Task Force on Accounting Standards. Straight-line depreciation is calculated by dividing the cost or fair value of an asset equally over its estimated useful life.

13.2.22 Depreciation is charged on an annual basis and commences in the month when the United Nations gains control over an asset in accordance with Incoterms. No depreciation is charged in the month of disposal.

13.2.23 Residual value will be recorded as zero (unless it is likely to be significant at the end of the asset’s usefulness to the organization).

13.2.24 The estimated useful life of various asset classes of property, plant and equipment is reflected in the table below:

| *Asset class* | *Asset subclass* | *Estimated useful life (in years)* |
|---|---|---|
| Communications and information technology (IT) equipment | IT equipment | 4 |
| | Communications equipment | 7 |
| | Audiovisual equipment | 7 |
| Vehicles | Light wheeled vehicles | 6 |
| | Heavy wheeled vehicles and engineering support vehicles | 12 |
| | Specialized vehicles, trailers and attachments | Set[a] (6- to 12-year range) |
| Machinery and equipment | Light engineering and construction equipment | 5 |
| | Heavy engineering and construction equipment | 12 |
| | Printing and publishing equipment | 20 |
| | Water treatment and fuel distribution equipment | 7 |
| | Medical equipment | 5 |
| | Transportation equipment | 7 |
| | Security and safety equipment | 5 |
| Furniture and fixtures | Office equipment | 4 |
| | Furniture | 10 |
| | Library reference material (including books) | 3 |
| | Fixtures and fittings | 7 |
| Leasehold improvements | Fixtures and fittings (shorter of lease term and 5 years) | 5 |
| | Minor construction work (shorter of lease term and 5 years) | 5 |
| Infrastructure assets | Telecommunications | Set[a] (up to 50 years) |
| | Energy | |
| | Protection | |
| | Transport | |
| | Waste management | |

| *Asset class* | *Asset subclass* | *Estimated useful life (in years)* |
|---|---|---|
| | Water management | |
| | Recreation | |
| | Landscaping | |
| Assets under construction | Buildings under construction | No depreciation |
| | Infrastructure assets under construction | |
| | Other assets under construction | |
| Buildings | Buildings — fixed | Set[a] (up to 50 years) |
| | Buildings — temporary and mobile | 7 |
| | Buildings — commercial finance leases | Shorter of term of arrangement and useful life of buildings |
| | Buildings — donated rights to use | |
| Land | | No depreciation |

[a] Specific useful lives and residual values will be applied for high-cost and/or specialized items of property, plant and equipment when the application of the standard useful life for the class would result in non-compliance with IPSAS.

*Impairment*

13.2.25 An impairment loss should be recognized whenever the recoverable amount falls materially below the carrying amount of the asset (book value). Impairment loss is considered an expense in the statement of financial performance.

13.2.26 At each reporting date for the statement of financial position, an assessment of whether an asset may be impaired needs to be performed by the United Nations.

13.2.27 Ongoing impairment reviews will occur when there is an impairment event such as an accident or natural disaster, and also during asset verification exercises. An annual impairment review/assessment will be performed on all individual items of communications and IT equipment, vehicles, machinery and equipment and furniture and fittings with a net book value, as at the year-end reporting date, of more than $25,000, and on land, buildings and infrastructure assets with a net book value of more than $500,000 as at that date.

*Derecognition*

13.2.28 An item of property, plant and equipment should be removed from the financial statements (derecognized) once its disposal has been approved. Operationally, prior to the occurrence of the approved disposal event and once the asset has been identified as an item whose use has no expected future economic benefit or service potential, the asset needs to be impaired.

13.2.29 Assets can be disposed of through transfer, donation, sale or scrapping. The following events could be applicable to the United Nations in derecognizing items of property, plant and equipment:

(a) Items for donation or transfer to other reporting entities: the carrying value of the items is to be taken to donation expense or transfer expense;

(b) Items for sale: the difference between the carrying amount and the expected sale value should be evaluated, and, in case of a positive difference, the expected loss on disposal is to be recorded for the difference;

(c) Items for scrapping, as no further use is expected: the carrying value is to be taken to impairment loss, with subsequent derecognition of items from the asset register;

(d) Missing items: once it has been concluded that items are missing (after a search has been duly conducted), the items are to be derecognized and the carrying amount is to be taken to impairment loss.

13.2.30 Gains or losses arising from the derecognition of an item of property, plant and equipment should be determined by calculating the difference between the actual net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate.

## 13.3 United Nations disclosure

13.3.1 The disclosure of property, plant and equipment should indicate the method of measurement (historical cost or fair value) and the depreciation method used.

13.3.2 A table should be included for property, plant and equipment, as shown in the example below.

| | *Communications and IT equipment* | *Vehicles* | *Machinery and equipment* | *Furniture and fixtures* | *Leasehold improve-ments* | *Infrastructure assets* | *Assets under construction* | *Buildings* | *Land* | ***Total*** |
|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 20XX** | | | | | | | | | | |
| Historical cost/fair value | | | | | | | | | | |
| Accumulated depreciation and impairment | | | | | | | | | | |
| Opening carrying amount | | | | | | | | | | |
| Movements for year | | | | | | | | | | |
| Additions | | | | | | | | | | |
| Disposals | | | | | | | | | | |
| Disposals depreciation | | | | | | | | | | |
| Impairment | | | | | | | | | | |
| Depreciation | | | | | | | | | | |
| Total movements for year | | | | | | | | | | |

| | Communications and IT equipment | Vehicles | Machinery and equipment | Furniture and fixtures | Leasehold improve-ments | Infrastructure assets | Assets under construction | Buildings | Land | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 20XX** | | | | | | | | | | |
| Historical cost/fair value | | | | | | | | | | |
| Accumulated depreciation and impairment | | | | | | | | | | |
| Closing carrying amount | | | | | | | | | | |

13.3.3 The United Nations should also disclose any contractual and capital commitments, and restrictions on titles.

13.3.4 The nature and effect of a change in an accounting estimate, the details of fair value and impairment calculations (if any) should be disclosed in the notes to the financial statements.

## 13.4 Policy guidance

13.4.1 Property, plant and equipment shall be classified into classes and subclasses as detailed in the table above. Classifications and useful lives will be reviewed annually.

13.4.2 The property, plant and equipment capitalization threshold has been defined as $20,000 for the United Nations and peacekeeping operations and as $5,000 for all other Secretariat reporting entities.

13.4.3 No grouping of items will be applied for the recognition of property, plant and equipment. The United Nations may capitalize five commodity groups at the lower threshold of $5,000: (a) vehicles; (b) prefabricated buildings; (c) satellite communications systems; (d) generators; and (e) network equipment.

13.4.4 For new items of property, plant and equipment, additional transportation costs of delivery from the Global Service Centre or other formal internal warehouses to a mission or office will be expensed. For items shipped directly to their final destination (i.e., no interim storage of them is carried out by the United Nations), only the costs up to the first point of entry in the country of the mission or office will be capitalized. In-country transportation costs will not be capitalized unless they are an integral part of the shipment charge from vendors.

13.4.5 Where there are difficulties in determining the appropriate fund of an asset on conversion to IPSAS, the asset will be converted to the primary fund deemed to be “using” the asset.

13.4.6 The United Nations will seek to link each item of property, plant and equipment to a single IPSAS segment to support segment reporting in the notes to the IPSAS-compliant financial statements. For opening balances and during the transition period, Secretariat entities will seek to make their best effort to arrive at segment classification for property, plant and equipment items.

13.4.7 The United Nations will not recognize heritage assets. However, the Organization will include a high-level description of significant heritage assets in the notes to the financial statements. The high-level summary description on holdings and acquisitions will be presented in the notes under the following classes:

(a) Real estate and monuments;

(b) Works of art;

(c) Books and maps; and

(d) Other heritage assets.

13.4.8 Depreciation of property, plant and equipment of Secretariat reporting entities, including strategic deployment stocks in Brindisi, will commence when the entity gains control of the property, plant and equipment at acquisition in accordance with Incoterms.

13.4.9 Assets under construction and land will not be subject to depreciation. They will, however, be subject to review for impairment adjustments.

13.4.10 A specific analysis of the impairment of particular assets or classes of assets will be conducted when conditions indicate a loss in value. The depreciated replacement cost approach will be applied in determining the impaired amount to be written down.

13.4.11 Property, plant and equipment items shall be transferred between United Nations offices and missions on a net book value basis; for internal transfers, the point of transfer of control will be the point of shipment of the asset. No additional costs of transport will be capitalized for internal transfers; the receiving office will expense any transportation costs.

13.4.12 Buildings, leasehold improvements, infrastructure assets and major upgrades to land and buildings are valued at cost and recognized as assets on the basis of the threshold of $100,000. No threshold should be applied to land. Upgrades and improvements shall be pre-designated as capital improvement projects. Internal labour costs incurred during upgrades and improvements will be capitalized where they are significant and specific to the project and can be discerned as part of the particular asset. For projects relating to self-constructed assets, internal labour costs will be capitalized if they are directly identifiable exclusively to the construction of the particular asset or group of assets.

13.4.13 A property, plant and equipment item comprising significant components with different useful lives will be depreciated separately. Componentization will apply to major owned buildings in which major systems such as the HVAC, elevators and electrical systems have useful lives shorter than that of the building itself. Componentization will not be applicable to buildings in field missions owing to the nature of their assets and operations, and will not be applied to leased property held under finance leases. The table below captures the proposed components and indicative subcomponents for administrative buildings.

**United Nations administrative building components and useful life ranges**

| *Class* | *Component* | *Subcomponent* | | *Useful life* |
|---|---|---|---|---|
| Building | Exterior | 1. | Foundations and basements | 50/40/25[a] |
| | | 2. | Superstructure | 50/40/25[a] |
| | | 3. | Exterior closure | 50/40/25[a] |
| | Roofing | 4. | Roofing | 20 |
| | Interior | 5. | Interior construction, staircases and interior finishes | 20 |
| | Services | 6. | Conveying systems | 25 |
| | | 7. | Plumbing | 25 |
| | | 8. | HVAC | 25 |
| | | 9. | Fire protection | 25 |
| | | 10. | Electrical and low-voltage systems | 25 |

[a] Specific useful lives and residual values will be applied for high-cost and/or specialized items of property, plant and equipment when the application of the standard useful life for the class would result in non-compliance with IPSAS.

13.4.14 Contingent-owned equipment does not meet the criteria for classification as an asset held under finance leases[3] and will be classified as an asset held under operating leases.

13.4.15 Project assets under the control of and executed directly by the Secretariat reporting entity will be capitalized. Assets for projects executed by an external party will be considered outside the control of the reporting entity and will therefore not be capitalized unless the Secretariat reporting entity maintains full control of the project and the implementing/executing third party is considered a direct agent of the Secretariat reporting entity, or in cases where the implementing/ executing third party has the responsibility to deliver a capital asset.

13.4.16 Reference library books[4] are considered property, plant and equipment and will be subject to capitalization on the basis of the property, plant and equipment asset recognition threshold per reference collection; books purchased for a library's general collection will be expensed.

13.4.17 Real estate will be valued using the fair value approach. This is due to the lack of information available for this area, as historical records are not available for many of these assets, especially to determine the cost of improvements made to

[3] Situations/criteria leading to a finance lease individually or in combination include:
(a) Ownership is transferred at the end of the lease;
(b) Lease contains a bargain purchase option;
(c) Lease term is for the majority of the asset's economic life;
(d) The present value of minimum lease payments amounts to substantially all the asset value.

[4] Note that significant holdings of subscriptions to electronic media are considered intangible assets.

buildings. Fair value will be determined using publicly available market values and/or international surveying standards. However, for major construction projects under way such as the capital master plan in New York and the new buildings constructed in Nairobi and Addis Ababa, information should be available to value them at cost, which in these cases is deemed to approximate fair value since the costs are current.

13.4.18 Self-constructed assets shall be subject to a capitalization threshold of $100,000. For self-constructed assets in peacekeeping operations, a standard cost approach based on depreciated replacement cost[5] will be applied on the basis of the type of construction and the location to bring these assets progressively into the IPSAS-compliant financial statements. The depreciated replacement cost methodology is being internally developed using international surveying standards.

13.4.19 Plant and equipment will be valued using the cost method. In order to make the determination of opening balances achievable for all Secretariat reporting entities, all property, plant and equipment items with a zero net book value at the IPSAS adoption date (based on the agreed useful lives) will be included in the gross value of property, plant and equipment in the notes to the financial statements and at the values currently available in the internal records. Reporting entities that find it impracticable to use the standard cost methodology for associated costs to determine the property, plant and equipment opening balances may choose to add associated costs to the values of property, plant and equipment records based on actual values, if the benefits of performing the exercise outweigh the costs associated with the data collection efforts.

13.4.20 Associated costs of property, plant and equipment that will have a positive net book value at the date of adoption will be determined on the basis of a standard cost methodology to arrive at the IPSAS cost of property, plant and equipment balances. The average percentage difference between the purchase order cost and the IPSAS cost will be applied to the entire population of items with a positive book value in the mission or office to determine IPSAS costs for opening balances. This methodology and its application will be performed by the reporting entity.

13.4.21 Property, plant and equipment will be subject to physical verification based on the significance of values and associated risks assessed by management.

13.4.22 For land acquired through title swap prior to IPSAS adoption, a fair exchange is assumed and the cost can be recorded as the purchase price of the land given up.

13.4.23 A number of United Nations-owned properties have servitudes, e.g., transferable restrictions on use that bar the construction of buildings. Servitudes normally have no accounting impact under IPSAS but, where significant, will be disclosed in the notes to the IPSAS-compliant financial statements in the spirit of full disclosure. However, stipulations regarding the sale of assets that may affect the selling price will be valued and the value of the property appropriately reduced for opening balances. For example, restrictions that grant a third party full control over the selling price will be capitalized at a nominal value.

13.4.24 Obligations relating to property restoration costs will be subject to accounting treatment based on the requirements of IPSAS 19.

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[5] The depreciated replacement cost approach is a fair value approach.

## 14. IPSAS 31, Intangible assets

### 14.1 Summary

This standard prescribes the accounting treatment for intangible assets that are not dealt with specifically in another standard. It specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

### 14.2 Standard

*Identifying intangible assets*

14.2.1 Intangible assets are resources without physical substance controlled by the entity and can be identified when they:

(a) Are separable (can be separated or divided from the Organization and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability); or

(b) Arise from a contract or other legal rights (regardless of whether those rights are transferable or separable from the entity or from other rights and obligations).

Common examples of intangible assets are computer software, copyrights, licences and patents.

14.2.2 An intangible asset shall be recognized if:

(a) It is probable that the expected future economic benefits or service potential attributable to the asset will flow to the Organization (i.e., the Organization has control over that asset); and

(b) The cost of the asset can be measured reliably.

For the Secretariat, the following criteria should also be met in order for an item to be recognized as an intangible asset:

(a) An estimated useful life of one year or more; and

(b) An externally acquired intangible asset meets the minimum established cost threshold of $5,000 or more per unit for all reporting entities other than the United Nations and peacekeeping operations. For the United Nations and peacekeeping operations, the threshold for the capitalization of an externally acquired asset is $20,000. For internally developed intangible assets, the capitalization threshold is $100,000 for all Secretariat reporting entities.

If the criteria set out above are not met, the cost of the item should be fully expensed in the financial period in which it was incurred.

14.2.3 An intangible asset shall be recognized initially at cost. After initial recognition, the asset shall be carried at historical cost less accumulated amortization and any impairment losses.

14.2.4 The total cost consists of the asset purchase price, generally the invoice price (less discounts), non-refundable purchase taxes, and any directly attributable costs (such as initial delivery and capitalizable internal labour costs) of bringing the intangible asset into working condition for its intended use. In the case of an internally developed intangible asset, after the capitalization stage has been established in accordance with paragraph 14.2.7 below, development costs, direct internal labour costs and product-testing costs are included in the total cost of the asset.

14.2.5 Where an intangible asset is acquired at no cost (as a gift, contribution or donation) or for a nominal cost, the fair value of the asset as at the date of acquisition is used.

Intangible assets in the Secretariat are mostly software and should be presented net of accumulated amortization in the financial statements.

14.2.6 Subsequent expenses should be capitalized only if they increase the future economic benefits or service potential of the intangible asset.

For a subsequent expense to be recognized as an intangible asset, it must meet the same criteria as those that apply for its acquisition.

14.2.7 For internally developed intangible assets, all research costs are charged to expenses when incurred. Development costs are capitalized only after technical feasibility has been established and future economic benefits or service potential has been demonstrated.

*Amortization*

14.2.8 Intangible assets should be amortized using a straight-line method, over the following ranges of estimated useful lives, starting from the month of acquisition or when the intangible assets become operational.

| *Asset class* | *Estimated useful life (in years)* |
|---|---|
| Software acquired externally | Set[a] (3- to 10-year range) |
| Software internally developed | Set[a] (3- to 10-year range) |
| Licences and rights | Set[a] (2- to 6-year range) |
| Copyrights | Set[a] (3- to 10-year range) |
| Assets under development | No amortization |
| Other intangible assets[a] | Set[a] |

[a] Specific useful lives and residual values will be applied for high-cost and/or specialized items when the application of the standard useful lives for the class would result in non-compliance with IPSAS.

14.2.9 An intangible asset with an indefinite useful life should not be amortized.

United Nations intangible assets are assumed to have a residual value of zero.

All intangible assets (with the exception of capitalizable Umoja costs, which the United Nations will seek to capitalize for opening balances) acquired before 1 July 2013 (for peacekeeping operations) and before 1 January 2014 (for the other operations of the Secretariat) will be subject to transitional provisions and will not be recognized. For in-progress intangible items, amounts expensed prior to IPSAS adoption shall not be capitalized as part of an intangible asset; subsequent expenses relating to in-progress intangible assets will be subject to the capitalization threshold.

*Impairment*

14.2.10 Intangible assets are impaired in accordance with IPSAS 21. An impairment loss should be recognized whenever the recoverable amount falls below the carrying amount of the intangible asset (book value). The impairment loss is considered an expense in the statement of financial performance.

*Derecognition*

14.2.11 An intangible asset shall be de-recognized on disposal or when no future economic benefits or service potential are expected from its use or disposal.

## 14.3 United Nations disclosure

14.3.1 The United Nations should disclose estimated useful life, amortization method, gross carrying amount, accumulated amortization, impairment losses and amortization expenses breakdown in the statement of financial performance.

14.3.2 A movement table showing changes in carrying amount and accumulated amortization and details about impairment of intangible assets, if any, should be disclosed in the notes to the financial statements as shown in the example below:

| | *Software acquired externally* | *Software acquired internally* | *Licences and rights* | *Copyrights* | *Assets under development* | *Other intangible assets* | ***Total*** |
|---|---|---|---|---|---|---|---|
| **As at 1 January 20XX** | XX | XX | XX | XX | XX | XX | **XX** |
| Cost | XX | XX | XX | XX | XX | XX | **XX** |
| Accumulated amortization | XX | XX | XX | XX | XX | XX | **XX** |
| Opening carrying amount | XX | XX | XX | XX | XX | XX | **XX** |
| Movements for year | XX | XX | XX | XX | XX | XX | **XX** |
| Additions | XX | XX | XX | XX | XX | XX | **XX** |
| Disposals | XX | XX | XX | XX | XX | XX | **XX** |
| Disposals amortization | XX | XX | XX | XX | | XX | **XX** |
| Impairment | XX | XX | XX | XX | XX | XX | **XX** |
| Amortization | XX | XX | XX | XX | | XX | **XX** |
| Total movements for year | XX | XX | XX | XX | XX | XX | **XX** |

| | *Software acquired externally* | *Software acquired internally* | *Licences and rights* | *Copyrights* | *Assets under development* | *Other intangible assets* | ***Total*** |
|---|---|---|---|---|---|---|---|
| **As at 31 December 20XX** | XX | XX | XX | XX | XX | XX | **XX** |
| Cost | XX | XX | XX | XX | XX | XX | **XX** |
| Accumulated amortization | XX | XX | XX | XX | XX | XX | **XX** |
| Closing carrying amount | XX | XX | XX | XX | XX | XX | **XX** |

### 14.4 Policy guidance

14.4.1 Intangible assets are stated at historical cost less accumulated amortization and any impairment losses.

14.4.2 Intangible assets, if they meet the recognition criteria set out in the paragraphs above, are capitalized provided that they have a useful life of one year or more and are above the threshold limits.

14.4.3 Where intangible assets are donated to the Organization in a non-exchange transaction, the assets are valued at fair value on the date of the donation.

14.4.4 The capitalized value of internally developed software excludes costs related to the research phase and maintenance costs, both of which are to be expensed. Internal costs such as labour costs will be allocated to the intangible asset if they can be determined to be part of the asset and identified on the time records of staff involved in developing the intangible asset or another allocation method.

14.4.5 Intangible assets are amortized using the straight-line method over their estimated useful lives in accordance with the table following paragraph 14.2.8 above.

14.4.6 Intangible assets will have a residual value of zero.

14.4.7 Intangible assets will be subject to transitional provisions and will be recognized prospectively. However, where feasible, the United Nations may capture and capitalize pre-implementation software development costs relating to Umoja. Such costs qualifying for capitalization include staff costs directly attributable to the project and consultant/vendor costs; these may be captured retrospectively for inclusion in the IPSAS-compliant opening balances for a Umoja-related intangible asset.

14.4.8 Subsequent to IPSAS adoption, the United Nations will capitalize software licences that meet the criteria for the capitalization of intangible assets. The total amount paid will be capitalized and amortized over the useful life of the asset. In cases where the United Nations has maintenance software contracts with vendors and pays annual fixed fees that cover all required maintenance and specified updates issued during the year by the vendor, such amounts will be expensed. Major upgrades that add future economic value to and increase the functionality of the intangible asset will be capitalized, and the useful economic life of the asset will subsequently be revised.

14.4.9 The Organization will assess on an annual basis whether a condition for the impairment of intangible assets exists and, if so, estimate the recoverable service amount, which is compared with the carrying amount for the calculation of the impairment adjustment. The Organization will also perform this assessment of intangible assets with an indefinite useful life and intangible assets not yet available for use, i.e., internally generated assets under development. The United Nations will not recognize intangible heritage assets. However, the Organization will include a high-level description of significant intangible heritage assets in the notes to the financial statements where applicable.

## 15. IPSAS 12, Inventories

### 15.1 Summary

This standard prescribes the accounting treatment for inventories, providing guidance on the determination of costs and their subsequent recognition as an expense, including any write-down to net realizable value/current replacement cost. It also provides guidance on the cost formulas used to assign costs to inventories.

### 15.2 Standard

15.2.1 Inventories are assets:

(a) In the form of materials or supplies to be consumed in the production process;

(b) In the form of materials or supplies to be consumed in the rendering of services;

(c) In the form of materials or supplies to be distributed in the rendering of services;

(d) Held for sale or distribution in the ordinary course of operations; or

(e) In the process of production for sale or distribution.

For the purposes of the United Nations, consumables and supplies are items held for external distribution, strategic stocks and reserves.

*Measurement of inventories*

15.2.2 Inventories shall be measured at the lower of cost and net realizable value or at the lower of cost and current replacement cost, except where inventories are acquired through a non-exchange transaction, where cost shall be measured at fair value as at the date of acquisition.

15.2.3 “Net realizable value” refers to the net amount that an entity expects to realize from the sale of inventories in the ordinary course of operations. Except for inventories held for distribution at no or nominal charge, inventories should be written down to net realizable value where this falls below cost.

Inventories held for sale at the United Nations include publications, stamps and Gift Shop/Bookshop stock.

15.2.4 Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

(a) Distribution at no charge or for a nominal charge; or

(b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

15.2.5 For inventories held for distribution at no or nominal charge, current replacement cost is the cost that would be incurred to acquire the asset on the reporting date. If the inventories cannot be acquired on the open market, then an estimate of replacement cost must be made.

Inventories at the United Nations shall include items held for sale or distribution to external entities, direct inputs into the production of items held for sale or external distribution, strategic stocks that are centrally stored and managed, and work-in-progress balances relating to items held for sale or external distribution.

*Cost of inventories*

15.2.6 The cost of inventories includes:

(a) Purchase cost or fair value if donated in kind;

(b) Conversion costs (materials, labour and overhead); and

(c) All other costs incurred in bringing the inventories to their present location and condition. When determining the cost of inventory, associated costs such as freight, import duties, insurance and other could be determined by applying a standard cost methodology to the cost of acquired inventory.

15.2.7 Cost can be determined either through the use of a specific identification cost method, on a first-in, first-out basis or on a weighted average price basis, which can be on either a periodic basis or a perpetual basis (when the underlying enterprise resource planning allows for the calculation of moving average price). The specific identification of costs means that specific costs are attributed to identified items of inventory. The first-in, first-out formula assumes that the items of inventory that were purchased first are sold (consumed) first, and consequently the items remaining in inventory at the end of the period are those most recently acquired or produced. The weighted average formula uses the average unit cost to determine the value of the ending inventory and the cost of similar items acquired during the period.

15.2.8 Some costs are not included in the cost of inventories. These include abnormal wastage, storage costs, administrative overhead and selling costs. These excluded costs are recognized as expenses in the period in which they are incurred.

*Recognition as an expense*

15.2.9 When inventories are sold, exchanged or distributed, their carrying amount shall be recognized as an expense in the financial period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when these inventories are distributed or when related services are rendered. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the financial period in which the write-down or loss occurs.

15.2.10 The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories and recognized as an expense in the period in which the reversal occurs. The reversal is limited to the amount of the original write-down.

### 15.3 United Nations disclosure

15.3.1 The financial statements should disclose the accounting policies used in the measurement of inventories, the total carrying amount of inventories, the carrying amount in appropriate classifications, the amount of inventories recognized as an expense during the financial period, the amount of any write-down of inventories recognized as an expense in the period, and the amount of any reversal of any write-down recognized in the statement of financial performance.

### 15.4 Policy guidance

15.4.1 Inventories are capitalized as current assets in the financial statements. In principle, inventory balances at the United Nations shall be composed of items held for sale or distribution to parties outside of the reporting entity and any material work-in-progress balances, and centrally managed strategic stocks.

15.4.2 When inventories are sold, exchanged or distributed, the carrying amount is recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when these inventories are distributed or when related services are rendered.

15.4.3 Inventories held for use or distribution at no or nominal charge will be measured at the lower of cost and replacement cost. Inventories held for sale will be measured at the lower of cost and net realizable value.

15.4.4 For the purposes of determining opening inventory balances and during the period of the transition to Umoja, the United Nations will determine the best practical way of calculating the costs of inventories. For example, the periodic weighted average price or moving average price methodology or, where applicable, the specific identification method may be used. For subsequent measurement, the most recent purchase costs may be used as a proxy for the current replacement cost and the most recent selling price may be used as a proxy for the net realizable value.

15.4.5 Upon the full deployment of Umoja, the cost of inventory shall be determined using the moving average price methodology.

15.4.6 Inventories will be summarized in the notes to the financial statements on the basis of the classes provided in the following table; additional details may be presented on the basis of specific significant balances held.

| *Inventory class* | *Inventory subclass* |
|---|---|
| Held for sale or external distribution | Books and publications |
| | Stamps |
| | Liquor |
| | Rations |
| | Other |

| *Inventory class* | *Inventory subclass* |
|---|---|
| Strategic consumables and supplies including United Nations reserves | Fuel — strategic and local reserves |
| | Medical and emergency supplies |
| | Rations |
| | Bottled water |
| | Uniforms and badges |
| | Safety and security supplies |
| | Motor vehicle spare parts |
| | Electrical spare parts |
| | All other strategic deployment stocks |
| Raw materials and work in progress | Printing supplies |
| | Construction materials and supplies |
| | Work in progress |

15.4.7 Consumables and supplies will include items held for external distribution, strategic stocks and reserves.

15.4.8 No in-country transportation costs will be capitalized unless they are part of the shipment charge from vendors.

15.4.9 For fuel and rations inventory, only strategic and local reserves will be considered inventories: operational inventory held is considered issued.

15.4.10 Inventory will be subject to physical verification based on the significance of values and associated risks assessed by management.

## 16. IPSAS 21, Impairment of non-cash-generating assets

### 16.1 Summary

This standard prescribes the procedures that the United Nations will apply to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognized. The standard also specifies when an impairment loss would be reversed and prescribes disclosures. It relates only to those non-cash-generating assets not covered under other IPSAS standards.

Cash-generating assets are held with a primary objective of generating commercial returns. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by profit-oriented entities. Property, plant and equipment and intangible assets held by the United Nations are considered to be non-cash-generating. Therefore, in order to determine whether they are impaired, the United Nations applies IPSAS 21.

## 16.2 Standard

*Impairment*

16.2.1 An impairment loss should be recognized whenever the recoverable service amount falls below the carrying amount (the "book value") of an asset.

16.2.2 The recoverable service amount is the higher of the asset's fair value less costs to sell and its value in use.

16.2.3 An impairment loss shall be recognized immediately in surplus or deficit.

16.2.4 After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future financial periods to allocate the asset's revised carrying amount on a systematic basis over its remaining estimated useful life.

16.2.5 The United Nations shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior financial periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.

For example, evidence may be available of physical damage of an asset that would likely result in the inability of the asset to provide the level of service that it was once able to provide. Examples could include a building damaged by fire or flood, or damaged equipment that can no longer be repaired or for which repairs are not economically feasible.

*Reversal of impairment losses*

16.2.6 An impairment loss recognized in prior financial periods for an asset shall be reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. The carrying amount of the asset will then be increased to its recoverable service amount. This increase is a reversal of an impairment loss.

16.2.7 The increased carrying amount of an asset attributable to the reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior financial periods.

16.2.8 A reversal of an impairment loss for an asset shall be recognized immediately in net surplus or deficit.

*Value in use*

16.2.9 The recoverable service amount is the higher of the fair value of a non-cash-generating asset less costs to sell and its value in use. The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of three approaches and depends on the availability of data and the nature of the impairment. The three approaches that can be used are: (a) the depreciated replacement cost approach; (b) the restoration cost approach; and (c) the service units approach.

16.2.10 Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero, with a corresponding amount recognized in net surplus or deficit. A liability for the remainder of the estimated loss is recognized only if required by another IPSAS standard.

### 16.3 United Nations disclosure

16.3.1 The United Nations should disclose the amount of impairment losses and reversals of impairment losses recognized in net surplus or deficit during the financial period, their segmental distribution (if applicable), the reason for the impairment/reversal, whether fair value is used for impairment testing, and the methodology used in calculating the fair value.

### 16.4 Policy guidance

16.4.1 An impairment loss is recognized whenever the recoverable amount falls below the carrying amount (the "book value") of an asset.

16.4.2 An impairment loss is recognized immediately in the statement of financial performance.

16.4.3 After the recognition of an impairment loss, the amortization or depreciation charge for the asset is adjusted in future financial periods to allocate the asset's revised carrying amount on a systematic basis over its remaining estimated useful life.

16.4.4 New assets in transit, assets under construction and land will be subject to review for impairment adjustments.

16.4.5 The depreciated replacement cost approach will be used for all impairment reviews of property, plant and equipment and intangible assets, including new assets in warehouses, except for cases where impairment is due to physical damage. The restoration cost approach should be used for such cases.

# Financing, financial instruments and foreign exchange

## 17. IPSAS 13, Leases

### 17.1 Summary

The United Nations is generally a party to leases in the context of arrangements for the use of land and buildings. This standard prescribes the appropriate accounting policies and disclosures to apply when the United Nations acts as a lessor or lessee. A lease is classified at its inception as either a finance lease or an operating lease.

### 17.2 Standard

*Operating leases*

17.2.1 Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit.

17.2.2 If the United Nations is a lessor, then it will recognize the revenue from operating leases as revenue on a straight-line basis over the lease term, and all costs, including depreciation, incurred in earning the lease revenue will be recognized as an expense.

17.2.3 An operating lease is a lease other than a finance lease.

*Finance leases*

17.2.4 A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to the ownership of an asset. The title may or may not be eventually transferred.

Following are examples of situations that, individually or in combination, would lead to the classification of a lease as a finance lease:

(a) The lease transfers the ownership of the asset to the lessee by the end of lease term;

(b) The lease term is for the major part of the economic life of the asset, even if the title is not transferred;

(c) The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made;

(d) The leased assets cannot easily be replaced by another asset;

(e) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; and

(f) At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

17.2.5 Other indicators that, individually or in combination, could also lead to the classification of a lease as a finance lease are the following:

(a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

17.2.6 At the commencement of the lease term, lessees shall recognize assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position. Liabilities should not be offset against assets. Lessors, in the meantime, shall recognize lease payments receivable under a finance lease as assets in their statements of financial position.

17.2.7 Assets and liabilities shall be recognized at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. At the inception of the lease, the present value of the lease payments is substantially equal to the asset's fair value.

17.2.8 A depreciation expense for depreciable assets as well as a finance expense for each accounting period will be recorded. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

*Sale and leaseback transactions*

17.2.9 A sale and leaseback transaction involves the sale of an asset by the lessee to the lessor and the leasing-back of the same asset by the lessee from the lessor. The accounting treatment of a sale and leaseback transaction depends on the type of lease involved.

## 17.3 United Nations disclosure

17.3.1 Lessees shall disclose the following for operating leases:

(a) The total of future minimum lease payments under non-cancellable operating leases, broken down according to payable terms: within one year; one to five years; and greater than five years;

(b) Lease payments recognized as an expense in the financial period; and

(c) A general description of the lessee's significant leasing arrangements.

17.3.2 Lessors shall disclose the following for operating leases:

(a) The future minimum lease payments under non-cancellable operating leases in the aggregate, broken down according to payable terms: within one year; one to five years; and greater than five years; and

(b) A general description of the lessor's leasing arrangements.

17.3.3 Lessees shall disclose the following for finance leases:

(a) For each class of asset, the net carrying amount at the reporting date;

(b) A reconciliation between the total of future minimum lease payments at the reporting date and their present value;

(c) The total of future minimum lease payments at the reporting date and their present value, broken down according to payable terms: within one year; one to five years; and greater than five years; and

(d) A general description of the lessee's significant leasing arrangements.

17.3.4 The United Nations is not a lessor under any leases that would qualify as finance leases. However, should the United Nations become the lessor under any finance lease, the disclosure requirements found in IPSAS 13 would apply.

## 17.4 Policy guidance

17.4.1 Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

17.4.2 The financial statements disclose:

(a) The total of future minimum lease payments under non-cancellable operating leases, broken down according to payable terms: within one year; one to five years; and greater than five years;

(b) Lease payments recognized as an expense in the financial period; and

(c) A general description of the lessee's significant leasing arrangements.

17.4.3 The United Nations is often granted the right of use and occupancy of premises through donated right-to-use arrangements or nominal leases. Please refer to paragraphs 8.4.6 to 8.4.10 above for United Nations policy regarding these arrangements.

## 18. IPSAS 28, 29 and 30, Financial instruments: presentation, recognition, measurement and disclosures

### 18.1 Summary

18.1.1 Updated standards on financial instruments were issued by the IPSAS Board in January 2010. These standards entail criteria for the recognition of financial instruments in the financial statements and the measurement of their carrying value, and the provision of information about factors that affect the amount, timing and certainty of future cash flows related to financial instruments; the nature and extent of the use of financial instruments; the financial purposes that they serve; the risks associated with those financial instruments; and policies for controlling these risks.

### 18.2 Standards

*Recognition*

18.2.1 An entity will recognize a financial asset or a financial liability on its statement of financial position when and only when it becomes party to the contractual provisions of the underlying financial instrument and, as a consequence, has a legal right to receive or a legal obligation to pay cash.

*Derecognition*

18.2.2 An entity will remove a financial asset from its statement of financial position when and only when the contractual rights to the cash flows from the financial asset expire (usually, in the case of contributions and accounts receivable, when payment has been received) or when it transfers the financial asset, with substantially all the risks and rewards of ownership, to another party.

18.2.3 An entity will remove a financial liability, or part of it, from its statement of financial position when and only when it is extinguished. In other words, the liability is only de-recognized once the obligation on the entity specified in the contract is discharged, waived or cancelled or expires and there is no longer a legal obligation on the entity to pay cash or provide goods or services.

18.2.4 A financial asset and a financial liability should be offset and the net amount reported in the statement of financial position only when the entity has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

*Measurement*

18.2.5 Financial instruments should be measured according to the valuation methods shown in the table below.

| | | | *Measurement basis* | |
|---|---|---|---|---|
| *Category* | *Description* | *Example* | *Initially* | *Subsequently* |
| 1. Financial assets at fair value through statement of financial performance | Financial assets either held for trading or electively classified into this category | Investments in debt or equity securities held in a trading portfolio | At fair value, with related transaction costs expensed | At fair value where reliably measured.<br>Interest or dividends accounted for through statement of financial performance |
| 2. Available-for-sale assets | Financial assets electively classified into this category or they do not fall into any other category | Investments in debt or equity securities that do fall into any other category | At fair value plus transaction costs | For debt and equity securities that can be measured reliably, at fair value, with gains or losses through net assets. Interest on such debt instruments is accounted for using the effective interest rate through the statement of financial performance. Where debt and equity securities cannot be reliably measured (usually equity items), at cost. For equity items, dividends receivable are accounted for through the statement of financial performance |
| 3. Held-to-maturity investments | Quoted financial assets with fixed or determinable payments that the United Nations has the intent and ability to hold until maturity | Debt securities, mandatory redeemable preference shares | At fair value plus transaction costs | At amortized cost, using effective interest rate, with interest through the statement of financial performance |

| | | | *Measurement basis* | |
|---|---|---|---|---|
| *Category* | *Description* | *Example* | *Initially* | *Subsequently* |
| 4. Loans and receivables | Unquoted financial assets with fixed or determinable payments | Accounts receivable, contributions receivable, notes receivable, loan assets and investments in unquoted securities | At fair value plus transaction costs | At amortized cost, using effective interest rate, with interest through the statement of financial performance |
| 5. Financial liabilities at fair value through statement of financial performance | Financial liabilities either held for trading or electively classified into this category | Derivative liabilities and other trading liabilities | At fair value with related transaction costs expensed | At fair value where reliably measurable; at cost where not reliably measurable |
| 6. Financial liabilities at amortized cost | All financial liabilities except those at fair value through the statement of financial performance | Accounts payable, notes payable, issued debt securities, loans | At fair value adjusted for directly attributable transaction costs | At amortized cost, using effective interest rate, with interest through the statement of financial performance |

18.2.6 Financial instruments are initially measured at fair value on the date of acquisition or issuance. Usually this is the same as cost, but sometimes an adjustment is required.

18.2.7 Subsequent to initial recognition, financial instruments may, depending on their classification into one of the six categories set out in the table above, be measured in one of three ways:

(a) Cost. This is the actual historical cost of the instrument, generally upon acquisition. For items such as equity investments that do not have a quoted market, it will generally be the purchase value;

(b) Amortized cost. This measurement method applies an effective interest rate in order to exactly discount future cash flows arising from the instrument to its initial carrying value. The effective interest rate will have to be imputed by iteration. The method is more likely to be applied to held-to-maturity investments (which have a longer time horizon to final maturity and are purchased at a discount to their face value) than contributions receivable, accounts receivable or accounts payable. For these latter items, the relatively short period between initial recognition and eventual derecognition (the receipt of cash in the case of contributions receivable and accounts receivable; the payment of cash to vendors in the case of accounts payable) means that there is usually little or no difference between the acquisition value and the value eventually recognized. However, amortized cost measurement can be applied to loans and receivables with fixed or determinable future payments and to long-term financial liabilities;

(c) Fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. This is not necessarily market price, but the prevailing market price will often provide a good indication of fair value.

The fair value hierarchy in IPSAS 29 is as follows:

(a) The best evidence of the fair value of a financial instrument is its quoted market price in an active market;

(b) Otherwise, use a valuation technique that makes maximum use of market inputs and includes recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models.

*Gains and losses*

18.2.8 A gain or loss arising from a change in the fair value of a financial asset or liability that is not part of a hedging relationship is recognized as follows:

(a) A gain or loss on a financial asset or financial liability classified at fair value through the statement of financial performance shall be recognized in the statement of financial performance (surplus or deficit);

(b) A gain or loss on an available-for-sale financial asset shall be recognized directly in net assets until the financial asset is de-recognized, at which time the cumulative gain or loss shall be recognized in the statement of financial performance.

18.2.9 For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the statement of financial performance when the financial asset or liability is de-recognized or impaired (see below) and through the amortization process.

*Impairment*

18.2.10 All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment. At each balance sheet date, the United Nations shall assess whether there is any objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists:

(a) For financial assets carried at amortized cost (i.e., held-to-maturity investments and loans and receivables (categories 3 and 4 in the table above), the carrying amount shall be reduced either directly or through the use of an allowance account, with the amount of the loss recognized in the statement of financial performance. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at the original effective interest rate;

(b) For financial assets carried at cost (i.e., unquoted equity instruments where the fair value cannot be reliably measured, of the type that may be classified under categories 1 and 2 in the table above), the carrying value of the asset is reduced by the difference between the carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar asset;

(c) For available-for-sale financial assets, when a decline in fair value has been recognized in net assets and it is concluded that the assets are impaired, the cumulative loss shall be removed from net assets and recognized in the statement of financial performance. This amount will be the difference between the acquisition cost and the current fair value.

## 18.3 United Nations disclosure

18.3.1 For financial instruments, the United Nations will disclose the following information as required by IPSAS 30. IPSAS 30 requires the disclosure of information about the significance of financial instruments with respect to an entity's financial position and financial performance. This includes:

(a) Disclosures relating to the entity's financial position, including information about financial assets and financial liabilities by category, special disclosures when the fair value option is used, reclassifications, derecognitions, pledges of assets, embedded derivatives and breaches of terms of agreements;

(b) Disclosures relating to the entity's performance in the period, including information about recognized revenue, expenses, gains and losses; interest revenue and expense; fee revenue; and impairment losses;

(c) Special disclosures for concessionary loans;

(d) Other disclosures, including information about accounting policies, hedge accounting and the fair values of each class of financial assets and financial liability;

(e) The disclosure of information about the nature and extent of risks arising from financial instruments;

(f) Qualitative disclosures about exposures to each class of risk and how those risks are managed; and

(g) Quantitative disclosures about exposures to each class of risk, separately for credit risk, liquidity risk and market risk. Disclosures about liquidity risk include maturity analyses for both non-derivative and derivative liabilities such as issued financial guarantee contracts. Disclosures about market risk include sensitivity analyses.

## 18.4 Policy guidance

18.4.1 For the United Nations, the main financial instruments are amounts relating to investments in the cash pools and contributions receivable balances; both of these categories of instruments are to be initially measured at fair value. For the cash pool balances, these shall be treated as cash equivalents or as investments by nature in accordance with the pro rata share held by each participant in the cash pool(s). Such pro-rata investment balances in the cash pool(s) will be reflected in the statements of financial position of Secretariat entities and other pool participants as cash equivalents, short-term investments, long-term investments and interest receivable, which will in effect mirror what each cash pool has invested in and what will be allocated to each pool participant on the basis of the participant's invested share in the pool(s). Additional note disclosures required by IPSAS 30 for financial instruments will be reflected in the notes to the financial statements of Secretariat entities.

18.4.2 Policy guidance specific to the cash pool(s) is as follows:

(a) Assets of the cash pool(s) disclosed in the notes to the financial statements of pool participants will reflect investments according to their nature, i.e., as cash, cash equivalents, accrued interest receivable or short-term or long-term investments. The liabilities of the cash pool(s) will reflect the obligations to the pool participants;

(b) Disclose in the notes to the financial statements of pool participants their share of the assets in the cash pool(s) by category;

(c) Disclose in the notes to the financial statements of pool participants the portion of the cash pool(s) pertaining to non-Secretariat entities;

(d) Disclose in the notes to the financial statement of each pool participant the relevant disclosures for investments as required by IPSAS 30, including investment objectives, the liquidity and performance of the pool(s), policies on accepting and controlling risks, exposure to concentrations of credit risks, credit rating by investment type and information on interest rate and currency risks, price risks and sensitivity analysis of interest rates. In addition, disclose an explanation noting that risk management disclosures in the pool participant's financial statements are based on the total cash pool(s) but that only a portion relates to the pool participant;

(e) Disclose a reconciliation of opening and closing balances by type of instrument and currency;

(f) Disclose information on any derivatives held;

(g) Disclose revenue by category, including interest revenue, revenue from the sale of investments and revenue from foreign exchange gains and losses;

(h) Classify the investments within cash pools as investments valued at fair value through surplus or deficit. Valuation to market will be carried out two times per year (30 June and 31 December) in order to reflect the needs of reporting for peacekeeping operations and other United Nations reporting entities. In addition, each pool participant shall classify investments in cash pool(s) by their nature in the statement of financial position, and these investments shall also be valued at fair value through surplus or deficit;

(i) Move from settlement date accounting to trade date accounting;

(j) Investments outside the cash pools will generally follow the accounting policies set out above and will be classified as cash equivalents, short-term investments and long-term investments according to their nature.

18.4.3 Policy guidance specific to receivables balances is as follows:

(a) Secretariat entities recognize their assessed and voluntary contributions receivable balances at nominal value (proxy to fair value at the time of recognition);

(b) Receivables are to be classified into current and non-current, with current receivables outstanding for amounts due within 12 months of the reporting date of the financial statements, while non-current receivables are those that are due more than 12 months after the reporting date. Receivables are to be categorized within the loans and receivables category of financial instruments. Receivables shall be recognized at cost less any potential impairment losses;

(c) Allowances for estimated irrecoverable amounts are recognized for receivables when there is objective evidence that the asset is impaired, in which case the impairment losses are recognized in the statement of financial performance;

(d) For assessed contributions receivable from Member States that specifically contested the amounts, these will be considered for full allowance;

(e) For long-outstanding assessed contributions receivable from Member States that agree to pay them off in accordance with an agreed-upon payment plan, the value of such receivables will be calculated using the present value approach by discounting future cash flows to the reporting date. If no payment plans are in place, then the general allowance method will be used in accordance with subparagraphs 18.4.3 (f) and (g) below;

(f) For all assessed contributions receivable that are overdue by four years or more, 100 per cent allowance is recommended for financial reporting purposes. The write-off of receivables is not addressed by this policy framework, as the General Assembly is the final authority with respect to determining the write-offs of balances of assessed receivables outstanding from Member States;

(g) The fair values of unpaid assessed contributions outstanding for periods of up to four years are to be computed using allowances of 80 per cent for receivables overdue by more than 36 months, 60 per cent for receivables overdue by more than 24 months and 20 per cent for receivables overdue by more than 12 months;

(h) For receivables outstanding from either a Member State that no longer exists (such as Yugoslavia) or a former Member State, receivables are proposed to be written off when IPSAS opening balances of receivables are measured, since these receivables are not expected to be collected; this would require the approval of the General Assembly;

(i) For voluntary contributions receivable, trade receivables and other receivables, the policy guidance is to use allowances of 25 per cent for receivables outstanding longer than 12 months, 60 per cent for receivables outstanding longer than 24 months and 100 per cent for receivables outstanding longer than 36 months. Provisioning will go through the specific identification of accounts receivable subject to allowance provisions, and then the general allowance based on ageing will be applied;

(j) The write-off of receivables is not specifically prescribed by IPSAS and is not addressed in this document; decisions involving write-offs are considered at the management level or, in the case of assessed or voluntary contributions from Member States, at the General Assembly or executive body level, as appropriate.

18.4.4 The subsequent measurement of all financial instruments is at fair value except for:

(a) Certain loans and receivables with fixed or determinable future payments; and

(b) Long-term financial liabilities.

These can be measured at amortized cost using the effective interest method. The costs of acquisition are included in the initial carrying amount of assets held at amortized cost, as detailed in the table above.

18.4.5 Financial instruments are recognized when the United Nations becomes a party to the contractual provisions of the instrument until such time as the rights to receive cash flows from those assets have expired or have been transferred and the United Nations has transferred substantially all the risks and rewards of ownership.

18.4.6 Gains or losses arising from changes in the fair value of financial instruments are included in the statement of financial performance in the period in which they arise.

## 19. IPSAS 5, Borrowing costs

### 19.1 Summary

This standard prescribes the treatment of borrowing costs that should, as a benchmark treatment, be expensed when incurred or, as an allowed alternative treatment, capitalized to the cost of a qualifying asset. The Task Force on Accounting Standards has recommended that such costs be expensed. The United Nations does not generally borrow funds; however, there have been cases in which loans were arranged in the context of building acquisitions and building renovations, and there have been some cases of borrowing between Secretariat entities.

## 19.2 Standard

19.2.1 Borrowing costs should be recognized as an expense in the financial period in which they are incurred. Alternatively, costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., office buildings, hospitals, etc.) should be capitalized as part of the cost of that asset.

19.2.2 The amount of borrowing costs eligible for capitalization on that asset is an amount equal to the actual borrowing costs incurred on that borrowing during the financial period less any investment income on the temporary investment of those borrowings.

19.2.3 To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization should be determined by applying a capitalization rate to the outlays on such assets.

19.2.4 The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the financial period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

19.2.5 The amount of borrowing costs capitalized during a financial period should not exceed the amount of borrowing costs incurred during that financial period.

*Commencement, suspension and cessation of capitalization*

19.2.6 The capitalization of borrowing costs commences when the outlays for the asset are being incurred, borrowing costs are being incurred and the activities to bring the asset to its intended use have started. It is suspended when active development is interrupted and costs are expensed. It is ceased when the asset is ready for its intended use.

## 19.3 United Nations disclosure

19.3.1 The entity shall disclose, in the financial statements, the accounting policy adopted for borrowing costs. If borrowing costs are capitalized, the amount of borrowing costs capitalized during the financial period and the capitalization rate used are also to be disclosed.

## 19.4 Policy guidance

19.4.1 Borrowing costs will be capitalized as part of the cost of an asset constructed or produced, and will include any fees associated with standby facilities, even if the facility is not utilized.

19.4.2 Borrowing costs will be calculated for borrowings between Secretariat reporting entities.

# 20. IPSAS 4, The effects of changes in foreign exchange rates

## 20.1 Summary

This standard establishes the accounting policies for foreign currency transactions and operations. The Secretariat entities will use the United States dollar as the functional currency and presentation currency for their IPSAS-compliant financial statements. Therefore, in the context of this standard, non-United States dollar currencies should be considered foreign currencies.

## 20.2 Standard

20.2.1 The functional and presentation currency of the Secretariat entities is the United States dollar. The exchange rate used shall be the United Nations operational rate of exchange, which has been determined through analysis to approximate the market spot rate; the United Nations operational rate of exchange is adjusted at year-end to ensure that the "closing rate" is very closely aligned with the market spot rate.

20.2.2 At the date of transaction, a non-United States dollar transaction shall be recorded in United States dollars (functional currency) by applying to the non-United States dollar amount the exchange rate between that currency and the United States dollar announced by the United Nations treasury for that period.

20.2.3 At each reporting date, non-United States dollar monetary items in the statement of financial position that are not in the functional currency shall be translated using the official closing rate for that reporting date; non-monetary items (e.g., property, plant and equipment) shall be translated using the rate at the date of the transaction; and non-monetary items carried at fair value shall be translated using the rate at the recognition date on which the in-kind contribution is received.

20.2.4 Exchange gains and losses resulting from the settlement of transactions other than in the functional currency and from translation shall be included in the statement of financial performance.

*Operations abroad*

20.2.5 The financial statements of the Secretariat entities include a number of operations and entities based in non-United States dollar countries. However, the United States dollar is considered to be the functional currency of these offices, since their revenue is based in large part on United States dollars.

20.2.6 Where the United States dollar is considered to be the functional currency of an operation abroad, its non-United States dollar transactions and non-United States dollar assets and liabilities shall be translated as described above, with related gains and losses included in the statement of financial performance.

20.2.7 Where a currency other than the United States dollar is considered to be the functional currency of an entity, in order to translate its financial statements into United States dollars, assets and liabilities shall be translated from the functional currency using the closing rate, items in the statement of financial performance shall be translated using the United Nations operational rate of exchange at the dates of the transactions, and all resulting exchange differences shall be recognized as a separate component of net assets.

*Translation of financial statements*

20.2.8 If in the future the functional and reporting currencies of the United Nations differ, assets and liabilities shall be translated from the functional currency into the presentation currency using the closing rate, items in the statement of financial performance shall be translated using the rates applicable on the dates of the transactions, and all resulting exchange differences shall be recognized as a separate component of net assets.

### 20.3 United Nations disclosure

20.3.1 The amount of exchange differences recognized in surplus or deficit, and/or in net assets, and a policy note on the treatment of currency risk should be disclosed.

### 20.4 Policy guidance

20.4.1 The functional and presentation currency of Secretariat entities is the United States dollar.

20.4.2 United Nations entities will apply the United Nations operational rate of exchange, which approximates the market rate, to record non-United States dollar transactions. The United Nations operational rate of exchange may be revised more frequently in periods of significant fluctuation.

20.4.3 Transactions in currencies other than United States dollars are translated into United States dollars at the prevailing monthly United Nations operational rate of exchange at the time of the transaction. Financial assets and liabilities in currencies other than United States dollars are translated into United States dollars using the closing rate of the United Nations operational rate of exchange on the reporting date.

20.4.4 Exchange gains and losses resulting from the settlement of transactions other than in the functional currency and from translation are included in the statement of financial performance.

# Disclosure

## 21. IPSAS 14, Events after the reporting date

### 21.1 Summary

This standard prescribes when an entity should adjust its financial statements for events after the reporting date and the disclosures that an entity should make about the date when the financial statements are authorized for issue and about events after the reporting date.

### 21.2 Standard

*Authorizing the financial statements for issue*

21.2.1 In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorized for issue.

21.2.2 The United Nations reporting date is 31 December of each year, and, with the exception of peacekeeping operations, its financial period is currently a two-year period. The date of authorization for issue is the date on which the Secretary-General shall submit the final financial statements to the external auditor, which must be no later than 31 March of the following year, according to the Financial Regulations. In the case of peacekeeping operations, the annual accounts for peacekeeping operations with special accounts for the annual financial period ending 30 June shall be submitted by the Secretary-General to the Board of Auditors no later than 30 September each year.

The external auditor issues a report on the audit of the annual financial statements. That report and the annual audited financial statements are presented at the next session following the issuance of the report. The Secretary-General transmits them to the General Assembly with such comments as deemed necessary (see financial regulation 7.12). The issue date is therefore considered to be the date on which the statutory annual financial statements are released to the external auditor for examination and opinion.

21.2.3 All material events that take place between the reporting date and the date of authorization for issue of the statutory annual financial statements of the United Nations that provide indication of conditions at the reporting date and are material enough to require an adjustment and applicable update in disclosure to the financial statements are referred to as adjusting events.

Examples of such events include the following: (a) the resolution of a court case after the reporting date owing to a present obligation at the reporting date; (b) information about the impairment of an asset at the reporting date; (c) the cost of an asset or proceeds from the sale of an asset become determinable after the reporting date; and (d) fraud or material errors have been discovered.

21.2.4 All material events that take place between the reporting date and the date of authorization for issue of the statutory annual financial statements of the United Nations that are indicative of conditions that came into existence only after the reporting date qualify for disclosure and are referred to as non-adjusting events.

For example, the following would all qualify as non-adjusting events: (a) the announcement or beginning of the implementation of a major restructuring; (b) the announcement of a plan to discontinue a material operation; (c) major purchases or sales of assets; (d) the occurrence of a catastrophe or the destruction of certain assets; and (e) material changes in exchange rates.

*Going concern*

21.2.5 An entity shall not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determines after the reporting date that there is an intention either to liquidate the entity or to cease operating or that there is no realistic alternative but to do so.

## 21.3 United Nations disclosure

21.3.1 The date when the financial statements are authorized for issue, and the name and identity of the person giving that authorization, need to be disclosed. If another body has the power to amend the financial statements after issuance, this fact should be disclosed as well.

21.3.2 The United Nations shall disclose the following for each material category of non-adjusting event 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.

### 21.4 Policy guidance

21.4.1 Adjustments to the annual financial statements of the United Nations are made to reflect adjusting events after the reporting date. Examples of adjusting events include: (a) the resolution of a court case after the reporting date owing to a present obligation at the reporting date; (b) information about the impairment of an asset at the reporting date; (c) the cost of an asset or proceeds from the sale of an asset become determinable after the reporting date; and (d) fraud or material errors have been discovered.

21.4.2 No adjustments are made to the amounts recognized in the financial statements of the United Nations to reflect non-adjusting events after the reporting date. There would be no adjustment for the following events: (a) the announcement or beginning of the implementation of a major restructuring; (b) the announcement of a plan to discontinue a material operation; (c) the occurrence of a catastrophe or the destruction of certain assets; and (d) material changes in exchange rates.

## 22. IPSAS 16, Investment property

### 22.1 Summary

This standard prescribes the accounting treatment for investment property and related disclosures.

### 22.2 Standard

22.2.1 Investment property does not include:

(a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;

(b) Owner-occupied property;

(c) Property held to deliver a social service that also generates cash flows. Such property is accounted for in accordance with IPSAS 17;

(d) Property under construction for third parties; and

(e) Property occupied by employees.

22.2.2 Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rental income or capital appreciation, or both, rather than for:

(a) Use in the production or supply of goods or services, or for administrative purposes; or

(b) Sale in the ordinary course of operations.

22.2.3 Investment property should be recognized as an asset when it is likely that future economic benefits or service potential associated with the asset will flow to the entity and the cost or fair value of the investment property can be determined reliably.

Examples of such property include the following: (a) land held for long-term capital appreciation in value, rather than for short-term sale in the ordinary course of business; (b) land whose future use has not yet been determined (in which case the land is assumed to be held for capital appreciation); (c) a building owned or held under a finance lease and leased out under an operating lease to third parties in return for rental income; (d) a building that is vacant, but held in order to be leased out under an operating lease; and (e) existing investment property that is being redeveloped for continuing use as investment property.

22.2.4 Investment property shall be initially measured at cost or fair value if it is acquired in a non-exchange transaction.

## 22.3 United Nations disclosure

22.3.1 Where the classification of investment property is difficult, the criteria used by the United Nations to distinguish investment property from owner-occupied property and property held for sale in the ordinary course of business should be disclosed. The following disclosures are required to be made in the financial statements:

(a) Disclosure of the existence and amount of restriction on the realizability of the investment property or the remittance of income and proceeds of disposal; and

(b) A reconciliation of the carrying amounts of the investment property at the beginning and end of each period presented:

(i) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of the asset;

(ii) Net exchange differences arising on the translation of the financial statements into a different presentation currency and on the translation of a foreign operation into the presentation currency of the reporting entity;

(iii) Transfers to and from inventories and owner-occupied property; and

(iv) Other changes.

## 22.4 Policy guidance

22.4.1 The United Nations will apply professional judgement to determine whether a property is qualified as investment property. The property would not be classified as investment property if it is:

(a) Used for administrative purposes;

(b) Used in the manufacture of goods or supply of services; or

(c) To be sold in the ordinary course of business.

In order to determine whether land and buildings should be recorded as investment property in the accounting records of the Organization, professional judgement is required to apply the principles of the standard to the specifics of the arrangements.

For example, the Economic Commission for Africa (ECA) owns and maintains United Nations premises. ECA has United Nations agencies on its premises and has conveyed to them the exclusive right to occupy and use offices and other spaces in the compound. ECA charges rent and common operational costs to the occupying agencies on a monthly basis.

However, the ECA premises cannot be considered an investment property, because the objective is not that ECA earn rental income or capital appreciation. The property was built in accordance with General Assembly resolutions (44/221 of 22 December 1989 and 47/199 of 22 December 1992) to establish common United Nations premises in a way that would increase efficiency through the consolidation of administrative infrastructures.

The ECA common premises will be considered part of property, plant and equipment in the statement of financial position, with additional disclosures provided in the notes to the financial statements.

22.4.2 After initial recognition, the United Nations will adopt the cost model for the valuation of investment property. In the cost model, investment property is measured at depreciated cost less any accumulated impairment losses.

22.4.3 If the United Nations chooses to adopt the fair value model at the time of the acquisition of investment property and there is clear evidence that the Organization is unable to determine fair value on a continuing basis, the cost model will be used for that property and it shall continue to be used until the disposal of the property. In that case, the residual value of the investment property shall be assumed to be zero.

22.4.4 A property may be classified by the United Nations as part of property, plant and equipment if it is used by the Organization for administrative purposes. However, should the United Nations cease to use the building for that purpose and make the decision to lease it to a third party (assuming this is not in the normal course of the Organization's operations), the property should be treated as investment property. Accordingly, the asset would be transferred from property, plant and equipment to investment property at cost less accumulated depreciation.

22.4.5 The cost of investment property includes transaction costs and directly attributable costs incurred on preparing the asset for its intended use. The fair value of investment property can be disclosed in the notes to the financial statements. Equipment and furnishings physically attached to a building are considered part of an investment property. For example, lifts, escalators, air-conditioning units, decoration and installed furniture are included as part of the cost of an investment property and are not separately classified as property, plant and equipment.

## 23. IPSAS 18, Segment reporting

### 23.1 Summary

This standard prescribes principles for the reporting of financial information by segment in order to better understand past performance of the United Nations and to identify the resources allocated to support its major activities and enhance the transparency of financial reporting.

### 23.2 Standard

23.2.1 When the activities in question are broad and encompass a wide range of geographical regions with different socioeconomic characteristics, it is necessary to report disaggregated financial and non-financial information about particular segments to provide relevant information for accountability and decision-making purposes.

23.2.2 The types of segments reported on are referred to as “service segments” or “geographical segments”. These terms have the following meanings:

(a) A service segment is a distinguishable component of an entity engaged in providing related services or achieving particular operating objectives consistent with its overall mission;

(b) A geographical segment is a distinguishable component of an entity engaged in providing related services or achieving particular operating objectives within a particular geographical area.

*Joint assets*

23.2.3 Assets that are jointly used by two or more segments should be allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.

*Newly identified segments*

23.2.4 If a segment is identified as a segment for the first time in the current financial period, prior financial period segment data presented for comparative purposes should be restated to reflect the newly reported segment as a separate segment, unless it is impracticable to do so.

*Accounting policy for segment reporting*

23.2.5 Segment reporting for Secretariat entities is based on service segments that are activities or pillars; the segments by pillar for United Nations operations, with the exception of peacekeeping operations, would reflect the activities of the following reporting entities: United Nations, International Trade Centre, United Nations Institute for Training and Research, United Nations Conference Centre, United Nations Environment Programme, United Nations Human Settlements Programme (UN-Habitat), United Nations Office on Drugs and Crime, etc.

*Reporting structure*

23.2.6 In some cases, an organization may report financial information (segment revenue, expenses, assets and liabilities) on the basis of more than one segment structure, for example, by both service and geographical segments.

23.2.7 Although United Nations internal reporting includes some regional financial and non-financial information, it is focused more on service segments rather than on regional segments.

## 23.3 United Nations disclosure

23.3.1 The United Nations will seek to undertake segment reporting based on principal activities or pillars.

23.3.2 Some internal activities lead to accounting transactions that create inter-segment revenue and expense balances in the financial statements by segment.

## 23.4 Policy guidance

23.4.1 With the exception of reporting for peacekeeping operations, segment reporting for Secretariat entities will be based on activities carried out by pillars (the United Nations will explore the possibility of extending the pillar approach to other reporting entities). The segment pillars include:

(a) Political and peacekeeping affairs;

(b) International justice and law;

(c) Cooperation and development;

(d) Human rights and humanitarian affairs;

(e) Public information and communications;

(f) Environmental affairs;

(g) Security and safety;

(h) Drug control;

(i) Crime prevention;

(j) Common support services; and

(k) Other.

23.4.2 Only the statement of financial performance will be considered in the transitional phase, and segment reporting based on pillars for the statement of financial position can be considered only with the full deployment of the enterprise resource planning project, Umoja.

23.4.3 Other service-based segments may be applied as deemed appropriate. For example, with respect to the peacekeeping operations, which represent a single fund group, reporting will be by three segments:

(a) Closed missions;

(b) Active missions; and

(c) Support activities.

23.4.4 Further relevant information will be provided on a mission basis.

## 24. IPSAS 20, Related party disclosures

### 24.1 Summary

The objective of this standard is to set the disclosure requirements for transactions between the United Nations and its related parties in certain circumstances.

### 24.2 Standard

24.2.1 Related party relationships are disclosed in the notes to the financial statements where control exists. Transactions with related parties, unless they occur within a normal supplier or client/recipient relationship and under arm's-length terms and conditions, are also disclosed.

24.2.2 Specific transactions with key management personnel and close members of their families are disclosed in the notes to the financial statements.

24.2.3 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control.

24.2.4 In considering each possible related party relationship, attention is directed to the substance, and not merely the legal form, of the relationship.

24.2.5 In general terms, key management personnel include all directors or members of the governing body where that body has the authority and responsibility for planning, directing and controlling the activities of the entity.

### 24.3 United Nations disclosure

24.3.1 The United Nations should disclose related party transactions and management remuneration (including an analysis by type of remuneration).

24.3.2 In respect of transactions between related parties, the United Nations should disclose:

(a) The nature of the related party relationships;

(b) The types of transactions that have occurred; and

(c) The elements of the transactions necessary to clarify the significance of the transactions to operations and sufficient to enable the financial statements to provide relevant and reliable information for decision-making and accountability purposes.

24.3.3 The following are examples of situations in which related party transactions may lead to disclosures by the United Nations:

(a) The rendering or receiving of services;

(b) Purchases or transfers/sales of goods (finished or unfinished);

(c) Purchases or transfers/sales of property and other assets;

(d) Agency arrangements;

(e) Leasing arrangements;

(f) The transfer of research and development; and

(g) Licence agreements, guarantees and collaterals.

24.3.4 In respect of specific transactions with key management personnel and close members of their families, the United Nations should disclose:

(a) The aggregate remuneration of key management personnel and the number of those personnel, divided into major classes;

(b) The aggregate of all other remuneration and compensation, divided into that provided to key management and that provided to family members;

(c) Information about loans that are provided to key management personnel and close members of their families but not widely available to other persons or not widely known about by members of the public.

### 24.4 Policy guidance

24.4.1 Transactions with entities within the Secretariat are considered eligible for disclosure as related party transactions.

24.4.2 For the United Nations, key management personnel comprise officials at the levels of Secretary-General, Deputy Secretary-General, Under-Secretary-General and Assistant Secretary-General and their equivalents in the United Nations entities governed by an executive board.

24.4.3 Aggregate monetary and, where measurable, non-monetary benefits provided to key management personnel will be disclosed.

## Presentation differences between the United Nations System Accounting Standards and IPSAS

| | *United Nations System Accounting Standards* | *IPSAS* |
|---|---|---|
| I. Statement of financial position (previously statement of assets, liabilities and reserves and fund balances) | | |
| Fund accounting | Financial position by fund group shown on face of statement | Aggregate position shown only on face of statement (individual funds/fund groups shown in notes to the financial statements). Each fund must account for all its assets and liabilities. Funds not controlled and funds jointly controlled will be moved to the notes to the financial statements |
| Current and non-current | No distinction between current and non-current | Presentation of assets and liabilities by current (less than 12 months) and non-current |

| | *United Nations System Accounting Standards* | *IPSAS* |
|---|---|---|
| Assets | Limited categories of assets recognized; expenditure on fixed assets, inventories and intangible assets expensed immediately | Recognition of all assets, notably property, plant and equipment, inventories and intangible assets |
| Accounts receivable/ payable | No distinction between exchange and non-exchange balances; no adjustment for impairment | Balances relating to exchange and non-exchange transactions to be disclosed separately. Accounts receivable to be shown net of allowances for doubtful accounts. Separation of financial receivables/payables from other receivables/payables required |
| Liabilities for employee benefits | Disclosure in notes allowed; recognition of post-employment benefits has commenced as part of the progressive implementation of IPSAS | Recognition of all employee benefit liabilities, most notably post-employment benefits, including after-service health insurance |
| Unliquidated obligations | Unliquidated obligations appear as expenditure and a liability on the face of the statement | No longer recognized as liabilities. However, contractual commitments are to be disclosed in the notes |
| II. Statement of financial performance (previously statement of income and expenditure and changes in reserves and fund balances) | | |
| Fund accounting | Financial result by fund group shown on face of statement | Aggregated result shown only on face of statement (individual funds/fund groups shown in notes to the financial statements). Each fund must account for all its revenue and expenses. Funds not controlled and funds jointly controlled will be moved to the notes to the financial statements |
| Expenses | Presented as one line on face of statement of financial performance. Expenses include amounts related to asset purchases and to unliquidated expenditure | Split on face of statement of financial performance by nature of expense. Expenses do not include asset purchases but include depreciation/amortization, as well as all accrued expenses |

| | *United Nations System Accounting Standards* | *IPSAS* |
|---|---|---|
| Depreciation/amortization | No depreciation charge (costs charged immediately to expenses) | Property, plant and equipment/intangible assets recognized and related depreciation/amortization charge shown on statement |
| Exchange rate | United Nations operational rate of exchange used | United Nations operational rate of exchange more closely aligned with market |
| III. Statement of changes in net assets/equity | | |
| Presentation | No separate statement prepared | Statement required. It includes adjustment for initial recognition of assets and liabilities not previously recognized |
| IV. Statement of cash flows | | |
| Presentation | Statement prepared using indirect method for operating, investing and financing activities | Statement prepared using indirect method for operating activities and direct method for investing and financing activities |
| V. Statement of comparison of budget and actual amounts | | |
| Disclosure | Includes only budget-to-actual amounts for biennium (non-peacekeeping operations); variance analysis not presented with statement | Based on annual budget amounts. Also compares original and final budgets. Explanation of material variances required in conjunction with statement |
| Disclosure | Reconciliation not relevant | Budget-to-actual reconciliation required, reflecting the difference in bases for the statement and the budget |
| VI. Notes to the financial statements | | |
| Disclosure | Disclosure requirements comparatively limited | IPSAS 1 outlines note structure, and other standards outline specific disclosure requirements. New notes requirements for key management personnel and their relatives; transactions with other related parties; events after reporting date; investment policies, classification and risks; policies on fair value with respect to valuing other financial assets and liabilities and arrangements; employee benefit |

| | *United Nations System Accounting Standards* | *IPSAS* |
|---|---|---|
| | | liabilities and details on associated actuarial assumptions and plan assets; movements in property, plant and equipment and intangible assets by class; segment reporting; budget information and variance analysis |
| Segment reporting | Not required | Segment reporting required for assets, liabilities, revenue and expenses |
| Budget reconciliation | Not required | Reconciliation between expenditure (on budgetary basis) and statement of cash flows required |

# Appendix I

## Model financial statements

The following model financial statements reflect the presentation of the financial statements of the United Nations currently expected under IPSAS. They were developed in the light of presentation guidance issued by the Task Force on Accounting Standards for United Nations system-wide application. The model financial statements are subject to improvements and updates as the policy framework evolves into its final version. It should be noted that comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSAS. The following are models for the five principal financial statements for the United Nations and peacekeeping operations; the financial statement formats relating to the other Secretariat reporting entities will be developed along the lines of these models.

# A. Proposed formats for the financial statements of the United Nations

## I. Statement of financial position as at 31 December 20X1

(Thousands of United States dollars)

| | *Relevant notes* | *31 December 20X1* | *31 December 20X0* |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | | |
| Short-term investments | | | |
| Assessed contributions receivable | | | |
| Voluntary contributions receivable | | | |
| Other accounts receivable | | | |
| Loans receivable, short-term | | | |
| Advance transfers | | | |
| Inventories | | | |
| Other current assets | | | |
| **Total current assets** | | | |
| **Non-current assets** | | | |
| Long-term investments | | | |
| Voluntary contributions receivable | | | |
| Other accounts receivable | | | |
| Loans receivable, long-term | | | |
| Advance transfers | | | |
| Property, plant and equipment | | | |
| Intangible assets | | | |
| Other non-current assets | | | |
| **Total non-current assets** | | | |
| **Total assets** | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable — Member States | | | |
| Accounts payable — other | | | |
| Transfers payable | | | |
| Advance receipts | | | |
| Borrowings | | | |
| Employee benefits | | | |
| Provisions | | | |
| Other current liabilities | | | |
| **Total current liabilities** | | | |

| | Relevant notes | 31 December 20X1 | 31 December 20X0 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Transfers payable | | | |
| Advance receipts | | | |
| Borrowings | | | |
| Employee benefits | | | |
| Provisions | | | |
| Other non-current liabilities | | | |
| **Total non-current liabilities** | | | |
| **Total liabilities** | | | |
| **Net assets** | | | |
| Accumulated surpluses/(deficits) — unrestricted | | | |
| Accumulated surplus — restricted | | | |
| Reserves | | | |
| **Total net assets** | | | |

## Details regarding lines in the financial statement

### Current assets

| | |
|---|---|
| Cash and cash equivalents | Cash (in bank); cash equivalent portion of the share of investments in the cash pool(s); term deposits, petty cash |
| | Other short-term highly liquid investments (readily convertible to cash and subject to an insignificant risk of changes in value with maturity 0 to 3 months at time of purchase) |
| | Cash and cash equivalents — restricted |
| Assessed contributions receivable | Member States' assessed contributions receivable |
| | Allowance for doubtful accounts receivable to be netted and detailed in notes |
| Voluntary contributions receivable | Voluntary contributions, confirmed and unpaid, from Member States |
| | Voluntary contributions, confirmed and unpaid, from other parties |
| | Accounts receivable for in-kind donations (that are part of a formal donation arrangement) |
| | Interest receivable from implementing partners — allowance for doubtful accounts receivable to be netted and detailed in notes |

| | |
|---|---|
| Other accounts receivable | Receivables from sales (property, plant and equipment, inventory, etc.) |
| | Other receivables (accrued interest, etc.) |
| | Loans receivable from staff |
| | Receivables from revenue-producing activities |
| | Receivables for finance lease as lessor (short-term) |
| | All other receivables |
| | Allowance for doubtful accounts receivable to be netted and detailed in notes |
| Short-term investments | Pro rata portion of the share of investment in cash pool(s) that corresponds to short-term investments of the cash pool(s) |
| | Other short-term investments with remaining maturities of less than one year |
| Loans receivable, short-term | Short-term loans receivable from agencies and implementing partners |
| Inventories | Consumables and supplies: |
| | • Maintenance materials |
| | • Spare parts and accessories |
| | • Other (supplies, etc.) |
| | Held for sale or distribution: |
| | • Postal service supplies held for sale (e.g., United Nations stamps) |
| | • Books and publications |
| | • Liquor |
| | • Other |
| | Raw materials and work in progress |
| Advance transfers | Advances to implementing partners (short-term) |
| | UNDP service clearing account |
| Other current assets | Deferred charges (short-term) |
| | Interfund balances receivable |
| | Advances to staff |

**Non-current assets**

| | |
|---|---|
| Long-term investments | Pro rata portion of the share of investment in cash pool(s) that corresponds to long-term investments of the cash pool(s) |
| Voluntary contributions receivable | Member States |
| | Other long-term receivables |
| | Net of allowance for doubtful accounts receivable (amount detailed in notes) |
| Other accounts receivable | Loans and advances to staff (long-term) |
| | Receivables from revenue-producing activities (long-term) |
| | All other receivables (long-term) |
| Loans receivable, long-term | Long-term loans receivable from agencies and implementing partners |
| Advance transfers | Advances made to partners (other organizations, non-governmental organizations, etc., that are not expected to be utilized within the next 12 months |
| Property, plant and equipment, net | Communications and information technology equipment |
| | Vehicles |
| | Furniture and fixtures |
| | Leasehold improvements |
| | Buildings |
| | Land |
| | Infrastructure |
| | Investment property |
| | Construction in progress |
| | Other |
| | Long-term donated right-to-use premises arrangements |
| | (Presented net of depreciation to be detailed in notes) |
| Intangible assets | Software acquired |
| | Software internally generated |
| | Intangibles under development |
| | Licences and rights |

| | |
|---|---|
| | Copyrights |
| | Other intangible assets |
| Other non-current assets | Deferred charges (long-term) |
| | Security deposits (long-term) |
| | Bonds outstanding |
| | Receivables for finance lease as lessor (long-term) |
| | Investment in joint entities, equity method |
| | Other |
| **Current liabilities** | |
| Accounts payable — Member States | Regular claims payable |
| | Credits returned to Member States |
| Accounts payable — other | Vendor payables |
| | Non-benefit staff payables |
| | Accruals for goods and services: |
| | • Expense accrual for rent |
| | • Expense accrual for operating leases |
| | • Accrued telephone expenses |
| | • Accrued electricity expenses |
| | • Accrued expenses for water bills |
| Transfers payable | Payable (to implementing agencies and partners) |
| | Payables due to funding sources |
| Advance receipts | Liabilities for conditional arrangements |
| | Contributions or payments received in advance |
| | Member State assessments |
| | Voluntary contributions |
| | Deferred revenue |
| Borrowings | Short-term loans |
| | Finance leases (short-term) |
| Employee benefits | Short-term accrual for staff benefits |
| | Employee salaries and benefits payroll |

| | |
|---|---|
| Provisions | Litigation and claims (e.g., legal claims) |
| | Restructuring |
| | Restoration |
| | Other |
| Other current liabilities | Interfund balances payable |
| | Local property survey board recoveries from staff |
| | Performance bond (to vendors due in less than 12 months) |
| | Advance receipts from staff/former staff for after-service health insurance, entitlements, etc. |
| | Other |
| **Non-current liabilities** | |
| Transfers payable | Payable (to implementing agencies and partners), long-term |
| | Payables due to funding sources, long-term |
| Advance receipts | Liabilities for conditional arrangements |
| | Contributions or payments received in advance |
| | Voluntary contributions |
| | Deferred revenue (long-term) |
| Borrowings | Long-term loans |
| | Finance leases (long-term) |
| Employee benefits | Long-term (per actuarial report), including: |
| | • After-service health insurance |
| | • Repatriation benefits |
| | • Annual leave |
| Provisions | Self-insurance claims |
| | Litigation and claims |
| | Restructuring |
| | Restoration |
| | Other |

| | |
|---|---|
| Other non-current liabilities | Liabilities under long-term donated right-to-use premises arrangements |
| | Other |
| **Net assets** | |
| Accumulated surpluses/(deficits) — unrestricted | Net surplus/deficit for the year |
| | Accumulated unrestricted surpluses/deficits from prior years |
| | Accumulated position on after-service health insurance, repatriation, unused annual leave and other long-term and post-employment employee benefits |
| | Accumulated position on initial recognition of assets and liabilities |
| | Opening balance (property, plant and equipment, inventories, provisions, etc.) |
| Accumulated surplus — restricted | Net surplus/deficit for the year for earmarked funds |
| | Accumulated surpluses/deficits from prior years for earmarked funds |
| | Surplus to be transferred for earmarked funds |
| | Opening balance adjustments |
| Reserves | Working capital reserve, authorized retained reserve, fund principal from contributions or reserves, which the United Nations prefers to track separately |

## II. Statement of financial performance for the year ended 31 December 20X1

(Thousands of United States dollars)

| | *Relevant notes* | *31 December 20X1* | *31 December 20X0* |
|---|---|---|---|
| **Revenue** | | | |
| Assessed contributions | | | |
| Member State voluntary contributions | | | |
| Other voluntary contributions | | | |
| Inter-organizational arrangements | | | |
| Other transfers and allocations | | | |
| Investment revenue | | | |
| Contributions for self-insurance programmes | | | |
| Revenue-producing activities | | | |
| Revenue from services rendered | | | |
| Programme support revenue | | | |
| Other/miscellaneous revenue | | | |
| **Total revenue** | | | |
| **Expenses** | | | |
| Employee salaries, allowances and benefits | | | |
| Non-employee compensation and allowances | | | |
| Grants and other transfers | | | |
| Supplies and consumables | | | |
| Depreciation and amortization | | | |
| Impairment of assets | | | |
| Self-insurance claims and expenses | | | |
| Travel | | | |
| Finance costs | | | |
| Other operating expenses | | | |
| Programme support and prorated expenses | | | |
| Other expenses | | | |
| **Total expenses** | | | |
| **Surplus/deficit for the period** | | | |

## Details regarding lines in the financial statement

### Revenue

| | |
|---|---|
| Assessed contributions | Assessed contributions from Member States |
| Voluntary contributions | Other voluntary contributions, in cash and goods in kind |
| | Contribution from non-Member States |
| Member State voluntary contributions | Member State voluntary contributions, in cash and goods in kind |
| Inter-organizational arrangements | Revenue under inter-organizational arrangements |
| Other voluntary contributions | Other voluntary contributions, in cash and goods in kind |
| | Contribution from non-Member States |
| Other transfers and allocations | Allocations from other funds |
| Investment revenue | Investment revenue |
| | Coupons and gains |
| | Bank balance interest |
| | Realized market gain (loss) |
| | Unrealized market gain (loss) |
| | Net of investment expenses |
| Contributions for self-insurance programmes | Revenue from contributions for self-insurance programmes from Organization and staff |
| Revenue-producing activities | Sale and use of television |
| | Sale and use of films |
| | Stamp sales and sales of publications |
| | Garage administration activities |
| Revenue from services rendered | Reimbursement for telecommunications charges |
| | Reimbursement from other agencies for costs associated with the issuance of United Nations laissez-passer |
| | Reimbursement for United Nations language services |

| | | |
|---|---|---|
| | | Reimbursement for other services |
| | | Other reimbursement income |
| | | Revenue earned in addition to reimbursement charges |
| | Programme support revenue | Revenue from programme support charges |
| | | Administrative fees |
| | Other/miscellaneous revenue | Revenue from rental of premises |
| | | Foreign exchange gains |
| | | Other miscellaneous income |
| | | Gain on sale of property, plant and equipment, intangible assets |
| | | Internal transfers of property, plant and equipment, intangible assets |
| | | Tax equalization — staff assessment income |
| **Expenses** | | |
| | Employee salaries, allowances and benefits | Staff salaries and wages, allowances including taxes and education grant home leave, family visit, rest and recuperation and education grant travel |
| | | Expenses for long-term and post-employment employee benefit liabilities, termination benefits, net actuarial gains/losses, contribution to United Nations Joint Staff Pension Fund |
| | | Actuarial pension contribution corrections (e.g., owing to changes in demographic factors) |
| | | General temporary assistance compensation and allowances |
| | | Travel on appointment |
| | | United Nations Volunteers compensation and allowances, defined pension benefits for judges and former Secretaries-General |
| | Non-employee compensation and allowances | Non-military personnel compensation and allowances |
| | | Individual contractors and individual consultants |
| | | United Nations Volunteers |

| | |
|---|---|
| | Judges' allowances (International Court of Justice) |
| | Interpreters and translators (non-staff) |
| | Ad hoc experts |
| Grants and other transfers | Outright grants and other transfers to implementing agencies and partners and other entities (United Nations Fund for International Partnerships, Central Emergency Response Fund, etc.) |
| | Quick-impact projects |
| Supplies and consumables | Cost of inventory used |
| | Expenses for supplies |
| Depreciation and amortization | Depreciation and amortization expenses for the period |
| Impairment of property, plant and equipment, intangible assets | Impairment of property, plant and equipment and intangible expenses for the period |
| Self-insurance claims and expenses | Claims expenses and claims incurred but not reported related to self-insurance programmes |
| Travel | Travel of staff |
| | Travel of representatives (Advisory Committee on Administrative and Budgetary Questions, meeting participants, delegates, etc.) |
| Finance costs | Interest paid on borrowing |
| | Fees for standby facilities |
| | Expenses related to finance leases |
| Other operating expenses | Rent, utilities |
| | Contracted services |
| | Doubtful debt expenses |
| | Net foreign exchange losses |
| | Maintenance expenses |
| | Insurance, etc. |
| | Expenses related to mine action, human security and United Nations Democracy Fund |
| | Recruitment expenses |
| | Training, travel on training and travel on transfer |

| | |
|---|---|
| | Travel of military observers and United Nations police (initial, rotation, etc.) |
| | Expenses related to financing activities |
| | Bank charges |
| | Credits to Member States for staff assessments |
| | Loss on sale of property, plant and equipment, intangible assets |
| Programme support and prorated expenses | Expenses related to programme support activities |
| | Other support and prorated expenses |
| Other expenses | Ex gratia payments |
| | Foreign exchange losses |
| | Hospitality and official functions |
| | Transfers of property, plant and equipment, intangible assets |
| | Donation of assets |
| | All other unusual expenses (depending on materiality, might be shown as a separate line) |

## III. Statement of changes in net assets/equity for the year ended 31 December 20X1

(Thousands of United States dollars)

| | *Relevant notes* | *Accumulated surpluses/ (deficits) — unrestricted* | *Accumulated surplus — restricted* | *Reserves* | *Total* |
|---|---|---|---|---|---|
| **Net assets at the beginning of the period (1 January 20X1)** | | | | | |
| Change in accounting policy | | | | | |
| Correction of prior-period error | | | | | |
| Adjustment for initial recognition/derecognition of assets and liabilities (property, plant and equipment, intangibles, inventories, donated right-to-use premises, unliquidated obligations, joint arrangements, other) | | | | | |
| **Adjustments for deficit position — employee benefit liabilities** | | | | | |
| **Restated balance at the beginning of the period** | | | | | |
| Credits to Member States | | | | | |
| Refunds to donors | | | | | |
| Transfers between reserves | | | | | |
| Transfers to/from other organizations/entities | | | | | |
| Exchange differences on certain foreign currency translations | | | | | |
| **Total items recognized directly in net assets** | | | | | |
| **Surplus/(deficit) for period** | | | | | |
| **Total recognized revenue and expense for period** | | | | | |
| **Net assets at end of period (31 December 20X1)** | | | | | |

## IV. Statement of cash flows for the year ended 31 December 20X1

(Thousands of United States dollars)

(Indirect method)

| | *Relevant notes* | *31 December 20X1* | *31 December20X0* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Surplus (deficit) for the period | | | |
| Non-cash movements | | | |
| Depreciation and amortization | | | |
| Impairment of assets | | | |
| (Increase) decrease in assessed contributions receivable | | | |
| (Increase) decrease in voluntary contributions receivable | | | |
| (Increase) decrease in other receivables | | | |
| (Increase) decrease in inventories | | | |
| (Increase) decrease in advance transfers | | | |
| (Increase) decrease in other current assets | | | |
| (Increase) decrease in other non-current assets | | | |
| Increase (decrease) in accounts payable — Member States | | | |
| Increase (decrease) in accounts payable — other | | | |
| Increase (decrease) in transfers payable | | | |
| Increase (decrease) in advance receipts | | | |
| Increase (decrease) in employee benefits | | | |
| Increase (decrease) in other current liabilities | | | |
| Increase (decrease) in other non-current liabilities | | | |
| (Gains) losses on sale of property, plant and equipment | | | |
| (Gains) losses on sale of investments | | | |
| **Net cash flows from operating activities** | | | |
| **Cash flows from investing activities** | | | |
| Pro rata share of purchases of investments in the cash pool(s) | | | |
| Pro rata share of sales of investments in the cash pool(s) | | | |
| Purchases of property, plant and equipment | | | |
| Purchases of intangible assets | | | |
| Issuance of loans receivable — current and non-current | | | |
| Proceeds from sale of property, plant and equipment | | | |
| Proceeds from repayment of loans receivable — current and non-current | | | |
| **Net cash flows from investing activities** | | | |

| | *Relevant notes* | *31 December 20X1* | *31 December20X0* |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings — current and non-current | | | |
| Repayment of borrowings — current and non-current | | | |
| **Net cash flows from financing activities** | | | |
| **Net increase (decrease) in cash and cash equivalents** | | | |
| **Cash and cash equivalents, beginning of period** | | | |
| Effect of exchange rate changes on foreign currency balances | | | |
| **Cash and cash equivalents, end of period** | | | |

## V. Statement of comparison of budget and actual amounts for the year ended 31 December 20X1

(Thousands of United States dollars)

| Budget part | Relevant notes | Budget amounts[a] Original budget | Final budget | Actual (on a comparable basis) | Difference: final budget and actual |
|---|---|---|---|---|---|
| Regular budget | | | | | |
| **Overall policymaking, direction and coordination** | | | | | |
| Overall policymaking, direction and coordination | | | | | |
| General Assembly and Economic and Social Council affairs and conference management | | | | | |
| **Political affairs** | | | | | |
| Political affairs | | | | | |
| Disarmament | | | | | |
| Peacekeeping operations | | | | | |
| Peaceful uses of outer space | | | | | |
| **International justice and law** | | | | | |
| International Court of Justice | | | | | |
| Legal affairs | | | | | |
| **International cooperation for development** | | | | | |
| Economic and social affairs | | | | | |
| Least developed countries, landlocked developing countries and small island developing States | | | | | |
| United Nations support for the New Partnership for Africa's Development | | | | | |
| Trade and development | | | | | |
| International Trade Centre | | | | | |
| Environment | | | | | |
| Human settlements | | | | | |
| International drug control, crime and terrorism prevention and criminal justice | | | | | |
| UN-Women | | | | | |
| **Regional cooperation for development** | | | | | |
| Economic and social development in Africa | | | | | |
| Economic and social development in Asia and the Pacific | | | | | |
| Economic development in Europe | | | | | |
| Economic and social development in Latin America and the Caribbean | | | | | |
| Economic and social development in Western Asia | | | | | |
| Regular programme of technical cooperation | | | | | |

| Budget part | Relevant notes | Budget amounts[a] Original budget | Final budget | Actual (on a comparable basis) | Difference: final budget and actual |
|---|---|---|---|---|---|
| **Human rights and humanitarian affairs** | | | | | |
| Human rights | | | | | |
| International protection, durable solutions and assistance to refugees | | | | | |
| Palestine refugees | | | | | |
| Humanitarian assistance | | | | | |
| **Public information** | | | | | |
| Public information | | | | | |
| **Common support services** | | | | | |
| Office of the Under-Secretary-General for Management | | | | | |
| Office of Programme Planning, Budget and Accounts | | | | | |
| Office of Human Resources Management | | | | | |
| Office of Central Support Services | | | | | |
| Office of Information and Communications Technology | | | | | |
| Administration, Geneva | | | | | |
| Administration, Vienna | | | | | |
| Administration, Nairobi | | | | | |
| **Internal oversight** | | | | | |
| Internal oversight | | | | | |
| **Jointly financed administrative activities and special expenses** | | | | | |
| Jointly financed administrative activities | | | | | |
| Special expenses | | | | | |
| **Capital expenditures** | | | | | |
| Construction, alteration, improvement and major maintenance | | | | | |
| **Safety and security** | | | | | |
| Safety and security | | | | | |
| **Development Account** | | | | | |
| Development Account | | | | | |
| **Staff assessment** | | | | | |
| Staff assessment | | | | | |
| **Subtotal, regular budget** | | | | | |
| Technical cooperation activities | | | | | |
| General trust funds | | | | | |
| Tax Equalization Fund | | | | | |

| Budget part | Relevant notes | Budget amounts[a] Original budget | Final budget | Actual (on a comparable basis) | Difference: final budget and actual |
|---|---|---|---|---|---|
| Capital master plan | | | | | |
| Capital assets and construction in progress | | | | | |
| Other special funds | | | | | |
| **Total** | | | | | |

[a] Based on annual amounts.

### Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows

(Thousands of United States dollars)

| | | 20X1 | | | |
|---|---|---|---|---|---|
| | *Relevant note* | *Operating* | *Investing* | *Financing* | *Total* |
| Actual amount on a comparable basis | | | | | |
| Actual amount in the statement of cash flows | | | | | |

## B. Proposed formats for the financial statements of the United Nations peacekeeping operations

### I. Statement of financial position as at 30 June 20X1

(Thousands of United States dollars)

| | *Relevant notes* | *30 June 20X1* | *30 June 20X0* |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | | |
| Short-term investments | | | |
| Assessed contributions receivable | | | |
| Voluntary contributions receivable | | | |
| Other accounts receivable | | | |
| Loans receivable, short-term | | | |
| Advance transfers | | | |
| Inventories | | | |
| Other current assets | | | |
| **Total current assets** | | | |
| **Non-current assets** | | | |
| Long-term investments | | | |
| Voluntary contributions receivable | | | |
| Other accounts receivable | | | |
| Loans receivable, long-term | | | |
| Advance transfers | | | |
| Property, plant and equipment | | | |
| Intangible assets | | | |
| Other non-current assets | | | |
| **Total non-current assets** | | | |
| **Total assets** | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable — Member States | | | |
| Accounts payable — other | | | |
| Transfers payable | | | |
| Advance receipts | | | |
| Borrowings | | | |
| Employee benefits | | | |
| Provisions | | | |
| Other current liabilities | | | |
| **Total current liabilities** | | | |

| | Relevant notes | 30 June 20X1 | 30 June 20X0 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Transfers payable | | | |
| Advance receipts | | | |
| Borrowings | | | |
| Employee benefits | | | |
| Provisions | | | |
| Other non-current liabilities | | | |
| **Total non-current liabilities** | | | |
| **Total liabilities** | | | |
| **Net assets** | | | |
| Accumulated surpluses/(deficits) — unrestricted | | | |
| Accumulated surplus — restricted | | | |
| Reserves | | | |
| **Total net assets** | | | |

## Details regarding lines in the financial statement

### Current assets

| | |
|---|---|
| Cash and cash equivalents | Cash (in bank), cash equivalent portion of the share of investments in the cash pool(s), term deposits with maturities equal to or less than 3 months, petty cash — unrestricted |
| | Other short-term highly liquid investments (readily convertible to cash and subject to an insignificant risk of changes in value with maturity 0 to 3 months at time of purchase) — unrestricted |
| | Cash and cash equivalents — restricted |
| Short-term investments | Pro rata portion of the share of investment in cash pool(s) that corresponds to short-term investments of the cash pool(s) |
| Assessed contributions receivable | Member State assessed contributions receivable |
| | Allowance for doubtful accounts receivable to be netted and detailed in notes |
| Voluntary contributions receivable | Voluntary contributions, confirmed and unpaid |
| | Accounts receivable for in-kind donations of goods (that are part of a formal donation arrangement) |

| | |
|---|---|
| Other accounts receivable | Receivables from sales (property, plant and equipment inventory, etc.) |
| | Other receivables (accrued interest, etc.) |
| | Loans receivable from staff |
| | Receivables from revenue-producing activities |
| | All other receivables |
| | Allowance for doubtful accounts receivable to be netted and detailed in notes |
| Loans receivable, short-term | Short-term loans receivable from agencies and implementing partners, other entities |
| Advance transfers | Advances to implementing partners (short-term) |
| Inventories | Consumables and supplies:<br>• Facilities and infrastructure spare parts<br>• Communications and Information Technology Section equipment spare parts<br>• Vehicle spare parts<br>• Surface vehicle petroleum, oils and lubricants<br>• Facilities and infrastructure petroleum, oils and lubricants<br>• Air assets — petroleum, oils and lubricants<br>• Medical supplies<br>• Other supplies<br>• Rations<br>• Uniforms and badges<br>• Security supplies<br>• Raw materials and work in progress |
| Other current assets | Deferred charges (short-term) |
| | Inter-fund balances receivable |
| | Advances to staff |
| | Security deposits |

**Non-current assets**

| | |
|---|---|
| Long-term investments | Pro rata portion of the share of investment in cash pool(s) that corresponds to long-term investments of the cash pool(s) |
| Voluntary contributions receivable | Member States |
| | Other |
| | Net of allowance for doubtful accounts receivable (amount detailed in notes) |
| Other accounts receivable | Member States |
| | Other long-term receivables |
| | Net of allowance for doubtful accounts receivable (amount detailed in notes) |
| Loans receivable, long-term | Long-term loans receivable from agencies and implementing partners and other entities |
| Advance transfers | Advances made to partners (other organizations, non-governmental organizations, etc.) that are not expected to be utilized within the next 12 months |
| Property, plant and equipment | Communications and information technology equipment |
| | Vehicles |
| | Furniture and fixtures |
| | Leasehold improvements |
| | Buildings |
| | Land |
| | Infrastructure |
| | Construction in progress |
| | Other |
| | (Presented net of depreciation to be detailed in the notes) |
| Intangible assets | Software acquired |
| | Software internally generated |
| | Intangibles under development |
| | Licences and rights |
| | Copyrights |
| | Other intangible assets |

| | |
|---|---|
| Other non-current assets | Deferred charges (long-term) |
| | Security deposits (long-term) |
| | Bonds outstanding |
| | Other |
| **Current liabilities** | |
| Accounts payable — Member States | Accounts payable — Member States (short-term payable in less than 12 months) |
| Accounts payable — other | Vendor payables |
| | Non-benefit staff payables |
| | Accruals for goods and services: |
| | • Expense accrual for rent |
| | • Expense accrual for operating leases |
| | • Accrued telephone expenses |
| | • Accrued electricity expenses |
| | • Accrued expenses for water bills |
| Transfers payable | Payable (to implementing agencies and partners) |
| | Payables due to funding sources |
| Advance receipts | Liabilities for conditional arrangements |
| | Contributions or payments received in advance |
| | Member State assessments |
| | Voluntary contributions |
| | Deferred revenue |
| Borrowings | Short-term loans |
| | Finance leases, short-term |
| Employee benefits | Short-term accrual for staff benefits |
| Provisions | Litigation and claims (e.g., legal claims) |
| | Restructuring |
| | Restoration |
| | Other |

| | |
|---|---|
| Other current liabilities | Inter-fund balances payable |
| | Local property survey board recoveries from staff |
| | Performance bond (to vendors due in less than 12 months) |
| | Other |
| **Non-current liabilities** | |
| Transfers payable | Payable (to implementing agencies and partners), long-term |
| | Payables due to funding sources, long-term |
| Advance receipts | Liabilities for conditional arrangements |
| | Contributions or payments received in advance |
| | Voluntary contributions |
| | Deferred revenue |
| Borrowings | Long-term loans |
| | Finance leases (long term) |
| Employee benefits | Long-term (per actuarial report), including: |
| | • After-service health insurance |
| | • Repatriation benefits |
| | • Annual leave |
| Provisions | Litigation and claims (e.g., legal claims) |
| | Restructuring |
| | Restoration |
| | Other |
| Other non-current liabilities | Other |
| **Net assets** | |
| Accumulated surpluses/(deficits) — unrestricted | Net surplus/deficit for the year |
| | Accumulated unrestricted surpluses/deficits from prior years |
| | Accumulated position on after-service health insurance, repatriation, unused annual leave and other post-employment employee benefits |

| | |
|---|---|
| | Accumulated position on initial recognition of assets and liabilities — opening balance (property, plant and equipment, provisions, etc.) |
| Accumulated surplus — restricted | Net surplus/deficit for the year for earmarked funds |
| | Accumulated surpluses/deficits from prior years for earmarked funds |
| | Surplus to be transferred for earmarked funds |
| | Opening balance adjustments |
| Reserves | Working capital reserve, authorized retained reserve, fund principal from contributions or reserves, which the United Nations prefers to track separately |

## II. Statement of financial performance for the year ended 30 June 20X1

(Thousands of United States dollars)

| | *Relevant notes* | *30 June 20X1* | *30 June 20X0* |
|---|---|---|---|
| **Revenue** | | | |
| Assessed contributions | | | |
| Member State voluntary contributions | | | |
| Other voluntary contributions | | | |
| Other transfers and allocations | | | |
| Investment revenue | | | |
| Other/miscellaneous revenue | | | |
| **Total revenue** | | | |
| **Expenses** | | | |
| Employee salaries, allowances and benefits | | | |
| Contingent contracted services | | | |
| Non-employee compensation and allowances | | | |
| Grants and other transfers | | | |
| Supplies and consumables used | | | |
| Depreciation and amortization | | | |
| Impairment of assets | | | |
| Other operating expenses | | | |
| Other expenses | | | |
| **Total expenses** | | | |
| **Surplus/deficit for the period** | | | |

### Details regarding lines in the financial statement

#### Revenue

| | |
|---|---|
| Assessed contributions | Member State assessed contributions |
| Member State voluntary contributions | Member State voluntary contributions, in cash and goods in kind (non-heritage assets) |
| Other voluntary contributions | Contributions from non-Member States |
| | Other voluntary contributions, in cash and goods in kind |
| Other transfers and allocations | Allocations from other funds |
| Investment revenue | Coupons and gains |
| | Bank balance interest |
| | Realized market gain (loss) |

| | |
|---|---|
| | Unrealized market gain (loss) |
| | Net of investment expenses |
| Other/miscellaneous revenue | Net foreign exchange gains |
| | Other miscellaneous income |
| | Gain on sale of property, plant and equipment |
| | Internal transfers of property, plant and equipment |
| | Tax equalization — staff assessment income |
| **Expenses** | |
| Employee salaries, allowances and benefits: | |
| Salary | Basic |
| | Post adjustment |
| | Overtime |
| | Staff assessments |
| Allowances/benefits | Mission subsistence allowance |
| | Expenses for post-employment employee benefit liabilities, net actuarial gains/losses |
| | Actuarial pension contribution corrections (e.g., due to erroneous non-payment of pension) |
| | Assignment/repatriation allowance |
| | Travel on appointment |
| | Hardship allowance |
| | Hazard allowance |
| | Dependency allowance |
| | Rental subsidy |
| | Education grant |
| | Medical insurance |
| | After-service health insurance |
| | Pension costs |
| | Family visit travel |
| | Education grant travel |

| | |
|---|---|
| | Residential security |
| | Peacekeeping reserve for compensation payments |
| | Termination indemnities |
| | Living allowance — United Nations Volunteers |
| | Assignment/repatriation allowances — United Nations Volunteers |
| Contingent contracted services | Troop cost |
| | Contingent self-sustainment |
| | Contingent-owned equipment |
| | Letters of assist |
| | Death and disability |
| | Recreational leave allowance |
| | Daily allowance |
| Non-employee compensation and allowances (military, police and non-military: | |
| Allowances | Mission subsistence allowance |
| | Clothing allowance |
| | Death and disability |
| | Residential security |
| | Welfare |
| Supplies and consumables used | Facilities and infrastructure — spare parts |
| | Communications and Information Technology Section equipment — spare parts |
| | Vehicles — spare parts |
| | Surface vehicles — petroleum, oils and lubricants |
| | Facilities and infrastructure — petroleum, oils and lubricants |
| | Air assets — petroleum, oils and lubricants |
| | Medical supplies |
| | Other supplies |
| | Rations |

| | |
|---|---|
| | Uniforms and badges |
| | Safety and security equipment |
| Depreciation and amortization | Depreciation and amortization expenses for the period |
| Impairment of property, plant and equipment, intangible assets | Impairment of property, plant and equipment and intangible expenses for the period |
| Other operating expenses: | |
| Maintenance | Technical support services |
| | Cleaning services |
| | Repair services |
| Consultancy | Fees (audit, legal) |
| Security | Security services |
| Rental | Rental — office and premises |
| | Rental — air services |
| | Rental — others (equipment, vehicles) |
| Public information | Services and programmes |
| Insurance | Shipping insurance — freight and shipping |
| | Liability insurance — vehicles and others |
| Demining | Detection/clearing services |
| Communications services | Service billing |
| Medical services | Medical services |
| | Aircraft landing fees |
| | Air crew subsistence allowance |
| Travel and travel on transfer | Transport |
| | Allowances |
| | Deployment/emplacement/rotation (military observers, United Nations police, staff officers) |
| Training | Travel expenses |
| | Professional fees |
| Bad debts | Bad debt expense |
| | Accounts receivable direct write-off |

| | |
|---|---|
| Shared services | Prorated services |
| | Administrative fees |
| | Programme support costs |
| | Depreciation and amortization |
| | Loss on sale of property, plant and equipment |
| | Recruitment expenses |
| | Bank charges |
| | Finance-lease-related expenses |
| | Net foreign exchange losses |
| | Shipping/freight services |
| | Stationery and office supplies |
| | Subscription and publications |
| | Utilities |
| Other expenses: | |
| Others | Ex gratia |
| | Hospitality and official functions |
| | Claims — staff and third parties |
| | Transfers of property, plant and equipment and intangible assets |
| | Donation of assets |
| | All other unusual expenses (depending on materiality, might be shown as a separate line) |
| Grants and other transfers | Costs of quick-impact projects/disarmament, demobilization and reintegration/community violence reduction |

## III. Statement of changes in net asset-equity for the year ended 30 June 20X1

(Thousands of United States dollars)

| | *Relevant notes* | *Accumulated surpluses/ (deficits) — unrestricted* | *Accumulated surplus — restricted* | *Reserves* | *Total* |
|---|---|---|---|---|---|
| **Net assets at the beginning of the period (1 July 20X0)** | | | | | |
| Change in accounting policy | | | | | |
| Correction of prior-period error | | | | | |
| Adjustment for the initial recognition of assets and liabilities (property, plant and equipment, intangibles, inventories, donated right-to-use premises, unliquidated obligations, joint arrangements, other) | | | | | |
| **Restated balance at the beginning of the period** | | | | | |
| Credits to Member States | | | | | |
| Refunds to donors | | | | | |
| Transfers to/from other reserves | | | | | |
| Exchange differences on certain foreign currency translations | | | | | |
| **Total items recognized directly in net assets** | | | | | |
| **Surplus/(deficit) for the period** | | | | | |
| **Total recognized revenue and expense for the period** | | | | | |
| **Net assets at the end of the period (30 June 20X1)** | | | | | |

## IV. Statement of cash flows for the year ended 30 June 20X1

(Thousands of United States dollars)

(Indirect method)

| | Relevant notes | 30 June 20X1 | 30 June 20X0 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Surplus (deficit) for the period | | | |
| Non-cash movements | | | |
| Depreciation and amortization | | | |
| Impairment of property, plant and equipment | | | |
| (Increase) decrease in assessed contributions receivable | | | |
| (Increase) decrease in voluntary contributions receivable | | | |
| (Increase) decrease in other receivables | | | |
| (Increase) decrease in inventories | | | |
| (Increase) decrease in advance transfers to partners | | | |
| (Increase) decrease in other current assets | | | |
| (Increase) decrease in other non-current assets | | | |
| Increase (decrease) in accounts payable — Member States | | | |
| Increase (decrease) in accounts payable — other | | | |
| Increase (decrease) in transfers payable | | | |
| Increase (decrease) in advance receipts | | | |
| Increase (decrease) in employee benefits | | | |
| Increase (decrease) in other current liabilities | | | |
| Increase (decrease) in other non-current liabilities | | | |
| (Gains) losses on sale of property, plant and equipment, intangibles | | | |
| (Gains) losses on sale of investments | | | |
| **Net cash flows from operating activities** | | | |
| **Cash flows from investing activities** | | | |
| Pro rata share of purchases of investments in the cash pool(s) | | | |
| Pro rata share of sales of investments in the cash pool(s) | | | |
| Purchases of property, plant and equipment | | | |
| Purchases of intangible assets | | | |
| Issuance of loans receivable — current and non-current | | | |
| Proceeds from sale of property, plant and equipment and intangibles | | | |
| Proceeds from repayment of loans receivable — current and non-current | | | |
| **Net cash flows from investing activities** | | | |

| | *Relevant notes* | *30 June 20X1* | *30 June 20X0* |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings — current and non-current | | | |
| Repayment of borrowings — current and non-current | | | |
| **Net cash flows from financing activities** | | | |
| **Net increase (decrease) in cash and cash equivalents** | | | |
| **Cash and cash equivalents, beginning of period** | | | |
| Effect of exchange rate changes on foreign currency balances | | | |
| **Cash and cash equivalents, end of period** | | | |

## V. Statement of comparison of budget and actual amounts for the year ended 30 June 20X1

(Thousands of United States dollars)

| | | Budget amounts | | | | |
|---|---|---|---|---|---|---|
| *Mission* | *Relevant notes* | *Original budget* | *Adjustments* | *Final (revised) budget* | *Actual amounts (on budgetary basis)* | *Difference: final budget less actual amounts* |
| **Revenues** | | | | | | |
| United Nations Peacekeeping Force in Cyprus | | | | | | |
| United Nations Disengagement Observer Force | | | | | | |
| United Nations Interim Force in Lebanon | | | | | | |
| United Nations Mission for the Referendum in Western Sahara | | | | | | |
| United Nations Interim Security Force for Abyei | | | | | | |
| United Nations Interim Administration Mission in Kosovo | | | | | | |
| United Nations Organization Stabilization Mission in the Democratic Republic of the Congo | | | | | | |
| United Nations Mission in Liberia | | | | | | |
| United Nations Operation in Côte d'Ivoire | | | | | | |
| United Nations Stabilization Mission in Haiti | | | | | | |
| United Nations Multidimensional Integrated Stabilization Mission in Mali | | | | | | |
| United Nations Mission in South Sudan | | | | | | |
| United Nations Integrated Mission in Timor-Leste | | | | | | |
| African Union-United Nations Hybrid Operation in Darfur | | | | | | |
| United Nations Support Office for the African Union Mission in Somalia | | | | | | |
| Support account for peacekeeping operations | | | | | | |
| United Nations Logistics Base | | | | | | |
| Peacekeeping Reserve Fund | | | | | | |
| **Total revenues** | | | | | | |

| Mission | Relevant notes | Budget amounts: Original budget | Budget amounts: Adjustments | Budget amounts: Final (revised) budget | Actual amounts (on budgetary basis) | Difference: final budget less actual amounts |
|---|---|---|---|---|---|---|
| **Expenses** | | | | | | |
| United Nations Peacekeeping Force in Cyprus | | | | | | |
| United Nations Disengagement Observer Force | | | | | | |
| United Nations Interim Force in Lebanon | | | | | | |
| United Nations Mission for the Referendum in Western Sahara | | | | | | |
| United Nations Interim Security Force for Abyei | | | | | | |
| United Nations Interim Administration Mission in Kosovo | | | | | | |
| United Nations Organization Stabilization Mission in the Democratic Republic of the Congo | | | | | | |
| United Nations Mission in Liberia | | | | | | |
| United Nations Operation in Côte d'Ivoire | | | | | | |
| United Nations Stabilization Mission in Haiti | | | | | | |
| United Nations Multidimensional Integrated Stabilization Mission in Mali | | | | | | |
| United Nations Mission in South Sudan | | | | | | |
| United Nations Integrated Mission in Timor-Leste | | | | | | |
| African Union-United Nations Hybrid Operation in Darfur | | | | | | |
| United Nations Support Office for the African Union Mission in Somalia | | | | | | |
| Support account for peacekeeping operations | | | | | | |
| United Nations Logistics Base | | | | | | |
| Peacekeeping Reserve Fund | | | | | | |
| **Total expenses** | | | | | | |
| **Net amounts** | | | | | | |

## Note on comparison of budget and actual amounts for the year ended 30 June 20X1

(Thousands of United States dollars)

| *Budget category* | *Relevant notes* | *Budget amounts* | | | *Actual amounts (on budgetary basis)* | *Difference: final budget less actual amounts* |
|---|---|---|---|---|---|---|
| | | *Original budget* | *Adjustments* | *Final (revised) budget* | | |
| Revenue from assessed contributions | | | | | | |
| Voluntary contributions in kind (budgeted) | | | | | | |
| Revenue from staff assessment | | | | | | |
| Revenues — other sources | | | | | | |
| **Total revenue** | | | | | | |
| Military and police personnel | | | | | | |
| Civilian personnel | | | | | | |
| Operational requirements | | | | | | |
| Share of common costs | | | | | | |
| Other budgeted expenses | | | | | | |
| **Total expenses** | | | | | | |
| **Net revenues/expenses** | | | | | | |

## Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows

(Thousands of United States dollars)

| | | *20X1* | | | |
|---|---|---|---|---|---|
| | *Relevant notes* | *Operating* | *Investing* | *Financing* | *Total* |
| Actual amount on a comparable basis | | | | | |
| Basis differences | | | | | |
| Timing differences | | | | | |
| Entity differences | | | | | |
| Actual amount in the statement of cash flows | | | | | |

# Appendix II

## Glossary

Below are some of the terms used in this policy framework and/or in the relevant IPSAS standards.

**Accounting basis**: the accrual, modified accrual, modified cash or cash basis of accounting. The choice of accounting basis affects the timing of the recognition of assets, liabilities, revenue and expenses.

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

**Accrual basis**: the accounting basis on which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recorded in the accounting records and recognized in the financial statements for the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets, revenue and expenses.

**Accounts payable**: amounts owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations.

**Accounts receivable**: amounts due to be received for goods sold or services rendered or in respect of contractual obligations.

**Active market**: a market in which: (a) the items traded are homogeneous; (b) willing buyers and sellers can normally be found at any time; and (c) prices are available to the public.

**Actual amounts**: amounts that (for budgetary purposes) are presented as part of the comparison schedule and as a basis for a reconciliation schedule resulting from the execution of the budget. For purposes of IPSAS 24, they include actual expenses and obligations that are comparable to the final budget presented.

**Actuarial gains and losses**: gains and losses that comprise: (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) the effects of changes in actuarial assumptions.

**Amortization**: the systematic allocation of the amortizable amount of an intangible asset over its estimated useful life.

**Appropriation**: an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or a similar authority. For the United Nations, appropriations are voted upon by the General Assembly.

**Approved budget**: the expense authority related to the anticipated revenue or receipts for the budgetary period. The General Assembly approves the United Nations General Fund budget prior to the start of each biennium.

**Assets**: resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. Assets that are used to deliver goods and services in accordance with an entity’s objectives but do not directly generate net cash inflows are often described as having service potential.

**Associate**: an entity in which an investor has significant influence and that is neither a controlled entity nor a joint venture of the investor.

**Balance sheet**: a statement of financial position of an entity as at a given date that exhibits its assets, liabilities, capital, reserve and other account balances at their respective book values.

**Borrowing costs**: interest and other expenses incurred by an entity in connection with the borrowing of funds.

**Budgetary basis**: the accrual, cash or other basis of accounting adopted in the budget that has been approved by a legislative body.

**Carrying amount of a liability**: the amount at which a liability is recognized in the statement of financial position.

**Carrying amount of an asset**: the amount at which an asset is recognized in the statement of financial position after the deduction of any accumulated depreciation or amortization and accumulated impairment losses thereon.

**Cash**: cash on hand and demand deposits.

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

**Cash flows**: inflows and outflows of cash and cash equivalents.

**Cash-generating assets**: assets held to generate a commercial return.

**Capital work in progress**: any expenditure intended to benefit the future period, in contrast to revenue or expenditure, which benefit the current period. The term is generally restricted to expenditure that adds fixed asset units or has the effect of improving the capacity, efficiency, lifespan or economy of operations of an existing asset.

**Change in accounting estimate**: 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 a correction of errors.

**Change in accounting policy**: a change from one basis of accounting to another. A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is also regarded as a change in accounting policy.

**Class of property, plant and equipment**: a grouping of assets of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the financial statements.

**Closing rate**: the spot exchange rate at the reporting date — i.e., the exchange rate used to translate foreign currency monetary balances at the end of a reporting period. For the United Nations, a series of rates are published for year-end that are based on and closely approximate the prevailing market rate at that date and are used as the closing rate.

**Commencement of a lease term**: the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue or expenses resulting from the lease, as appropriate).

**Comparable basis**: the actual amounts presented on the same accounting basis and the same classification basis for the same entities and for the same period as the approved budget.

**Conditions on transferred assets**: stipulations that specify that the future economic benefits or service potential embodied in an asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

**Consolidated financial statements**: the financial statements of an economic entity (controlling entity plus all entities controlled) presented as those of a single entity.

**Construction contract**: a contract or similar binding arrangement specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

**Constructive obligation**: an obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Contingent asset**: a possible asset 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.

**Contingent liability**: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

**Control**: the power to govern the financial and operating policies of another entity so as to benefit from its activities.

**Controlled entity**: an entity under the control of another entity (known as the controlling entity).

**Controlling entity**: an entity that has one or more controlled entities.

**Cost**: the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

**Cost method**: a method of accounting for an investment whereby it is recognized at cost. Revenue from the investment is recognized only to the extent that the investor is entitled to receive distributions from accumulated surpluses arising after the date of acquisition.

**Current replacement cost**: the cost that an entity would incur to acquire an asset on the reporting date.

**Defined benefit plans**: post-employment benefit plans other than defined contribution plans.

**Defined contribution plans**: post-employment benefit plans under which an entity pays fixed contributions to a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior financial periods.

**Depreciable amount**: the cost of an asset, or other amount substituted for cost, less its residual value.

**Depreciation**: the systematic allocation of the depreciable amount of a tangible asset over its estimated useful life.

**Economic entity**: a group of entities comprising a controlling entity and one or more controlled entities.

**Employee benefits**: all forms of consideration given by an entity in exchange for service rendered by employees. Employee benefits comprise all entitlements, salaries, allowances, benefits and incentives.

**Equity instrument**: any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

**Events after the reporting date**: those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified: adjusting and non-adjusting events.

**Exchange difference**: the difference resulting from reporting the same number of units of a foreign currency in the presentation currency at different exchange rates.

**Exchange rate**: the ratio for the exchange of two currencies.

**Exchange transactions**: transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or the use of assets) to another entity in exchange.

**Expenses**: decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

**Fair value**: the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction; the most recent acquisition prices of similar assets from third parties (i.e., vendors) or, in the absence of the most recent purchase values, a value quoted or referenced from a market source can serve as a proxy for fair value.

**Final budget**: the original budget adjusted for all reserves, carryover amounts, transfers, allocations, supplemental appropriations, and other authorized legislative, or similar authority, changes applicable to the budget period.

**Finance lease**: a lease that transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee. Title may or may not eventually be transferred.

**Financial asset**: any asset that is: (a) cash; (b) a contractual right to receive cash or another equivalent asset from another entity; (c) a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or (d) an equity instrument of another entity.

**Financial instrument**: any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments are either financial assets or financial liabilities, but not all financial assets are financial instruments.

**Financial liability**: any liability that is a contractual obligation: (a) to deliver cash or another financial asset to another entity; or (b) to exchange financial instruments with another entity under conditions that are potentially unfavourable.

**Financial risk**: includes the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate or other variable provided, in the case of a non-financial variable, that the variable is not specific to a party to a contract.

**Financing activities**: activities that result in changes in the size and composition of the contributed capital and borrowings of an entity.

**Foreign currency**: a currency other than the functional currency of an entity.

**Foreign operation**: an entity that is a controlled entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

**Functional currency**: the currency of the primary economic environment in which an entity operates. For the United Nations, this is considered to be the United States dollar.

**Impairment**: a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation or amortization.

**Impracticable requirement**: a requirement that an entity cannot apply after making every reasonable effort to do so.

**Inception of a lease**: the earlier of the date on which a lessor and lessee enter into a lease agreement and the date on which the parties commit to the principal provisions of the lease. As at this date: (a) a lease is classified as either an operating or a finance lease; and (b) in the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.

**Intangible assets**: identifiable non-monetary assets without physical substance.

**Interest cost**: the increase during a financial period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement.

**Inventories**: assets: (a) in the form of materials or supplies to be consumed in the production process; (b) in the form of materials or supplies to be consumed or distributed in the rendering of services; (c) held for sale or distribution in the ordinary course of operations; or (d) in the process of production for sale or distribution. Care should be taken to avoid confusion in using the word “inventory”. Property, plant and equipment are not inventory as defined above, although they may be inventoried by being counted and physically verified.

**Investing activities**: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

**Investment property**: property (land, a building or part of a building, or both) held to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of operations.

**Joint control**: the agreed sharing of control over an activity by a binding arrangement.

**Joint venture**: a binding arrangement whereby two or more parties are committed to undertaking an activity that is subject to joint control.

**Key management personnel**: as defined under IPSAS, those officials who are responsible for the planning, directing and controlling activities of a reporting entity.

**Lease**: an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

**Lease term**: the non-cancellable period for which the lessee has contracted to lease an asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

**Legal obligation**: an obligation that derives from: (a) a contract (through its explicit or implicit terms); or (b) legislation; or (c) other operation of law.

**Liabilities**: present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

**Market value**: the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market.

**Material omissions or misstatements**: omissions or misstatements of items that could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

**Minority interest**: that portion of the surplus or deficit and net assets of a controlled entity attributable to net asset interests that are not owned, directly or indirectly through controlled entities, by the controlling entity.

**Modified cash basis**: the accounting basis on which revenue and expenses are usually reported when cash is received or a payment is made, but with some exceptions. Notably, expenditures can be reported prior to the payment of cash on the basis that the cash will need to be paid out soon after the end of the financial year. On this basis, investments in physical assets and intangibles are expensed immediately and employee benefit liabilities are not required to be reported in the financial statements.

**Monetary items**: units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

**Multi-employer plans**: defined contribution plans (other than State plans and composite social security programmes) or defined benefit plans (other than State plans) that: (a) pool the assets contributed by various entities that are not under common control; and (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

**Multi-year budget**: an approved budget for a period of more than one year. It does not include published forward estimates or projections for periods beyond the budget period.

**Net assets**: the residual interest in the assets of an entity after all its liabilities have been deducted. This is the residual measure in the statement of financial position.

**Net realizable value**: the estimated selling price of inventory in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

**Non-cash-generating assets**: assets other than cash-generating assets.

**Non-exchange transactions**: transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

**Non-monetary items**: items that are not monetary items.

**Notes**: disclosures that contain information in addition to that presented in the statement of financial position, the statement of financial performance, the statement of changes in net assets/equity and the statement of cash flows. Notes provide narrative descriptions or the disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

**Obligating event**: an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

**Onerous contract**: a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

**Operating activities**: the activities of an entity that are not investing or financing activities.

**Operating lease**: a lease other than a finance lease, with the risk of ownership substantially remaining with the lessor.

**Original budget**: the initial approved budget for the budget period.

**Other long-term employee benefits**: employee benefits (other than post-employment benefits and termination benefits) that do not fall due wholly within 12 months after the end of the financial period in which the employees render the related service.

**Oversight**: the supervision of the activities of an entity, with the authority and responsibility of control, or the exercise of significant influence, over the financial and operating decisions of the entity.

**Owner-occupied property**: property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

**Past service cost**: the increase in the present value of the defined benefit obligation for employee service in prior financial periods, resulting in the current financial period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where benefits are reduced).

**Period-end**: the last day of any accounting period, e.g., month, quarter, half year or year.

**Plan assets**: (a) assets held by a long-term employee benefit fund; and (b) qualifying insurance policies that are set aside for the payment of employee benefit liabilities.

**Post-employment benefits**: employee benefits (other than termination benefits) that are payable after the completion of employment.

**Post-employment benefit plans**: formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

**Prepaid expense**: payment for expense in an accounting period, the benefit for which will accrue in the subsequent period(s).

**Present value of a defined benefit obligation**: the present value, without the deduction of any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior financial periods.

**Presentation currency**: the currency in which the financial statements are presented. For the United Nations, this is the United States dollar. It is the same as the reporting currency.

**Prior-period errors**: omissions from, and misstatements in, the entity's financial statements for one or more prior financial periods, arising from a failure to use or a misuse of reliable information that: (a) was available when financial statements for those financial periods were authorized for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

**Property, plant and equipment**: tangible items that are: (a) held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and (b) expected to be used during more than one reporting period. Property, plant and equipment should not be confused with inventories as defined above, although they may be counted and physically verified.

**Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate**: (a) applying a new accounting policy to transactions occurring in the financial period when the policy is changed; and (b) recognizing the effect of the change in the accounting estimate in the current and, where applicable, future financial periods affected by the change.

**Provision**: a liability of uncertain timing or amount.

**Provision for expense**: an amount written off or retained by way of providing for depreciation or diminution in the value of assets or retained by way of providing for any known liability, the amount of which cannot be determined with substantial accuracy.

**Provision for unrealized revenue**: a provision made for revenue considered doubtful of recovery.

**Qualifying asset**: an asset that necessarily takes a substantial period of time to prepare for its intended use or sale.

**Recoverable service amount**: the higher of a non-cash-generating asset's fair value less cost to sell and its value in use.

**Related parties**: parties considered to be related if one party has the ability to control, or exercise significant influence over, the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control.

**Related party transaction**: a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the Government of which it forms part.

**Remuneration of key management personnel**: any consideration or benefit derived directly or indirectly by key management personnel from a reporting entity for services provided in their capacity as members of the governing body or otherwise as employees of the reporting entity.

**Reporting currency**: the currency used in presenting the financial statements. For the Secretariat reporting entities, the reporting currency will be United States dollars, in accordance with the Financial Regulations and Rules of the United Nations. It is the same as the presentation currency.

**Reporting date**: the date of the last day of the reporting period to which the financial statements relate. In the case of the United Nations, it is 31 December of each year for all reporting entities except peacekeeping operations, which have 30 June as the last day of their reporting period.

**Reporting period**: the basic accounting period that applies to all financial recording and reporting at the United Nations. For the United Nations, the financial period begins on 1 January, lasts for 12 months and ends on 31 December for all reporting entities except peacekeeping operations, which have a reporting cycle starting on 1 July and ending on 30 June.

**Residual value**: the estimated amount that an entity would currently obtain from the disposal of an asset, after the deduction of the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Retrospective application**: the application of a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

**Retrospective restatement**: a revision correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior-period error had never occurred.

**Restructuring**: a programme that is planned and controlled by management and materially changes either: (a) the scope of an entity's activities; or (b) the manner in which those activities are carried out.

**Revenue**: the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets other than increases relating to contributions from owners.

**Segment**: a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions on the future allocation of resources.

**Segment accounting policies**: accounting policies adopted for the preparation and presentation of the financial statements of a consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.

**Segment assets**: those operating assets that are employed by a segment in its operating activities and either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

**Segment expense**: an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment. These include expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity.

**Segment liabilities**: those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to it on a reasonable basis.

**Segment revenue**: revenue reported in an entity's statement of financial performance that is directly attributable to a segment and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees or sales to external customers or from transactions with other segments of the same entity.

**Separate financial statements**: those financial statements presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets interest rather than on the basis of the reported results and net assets of the investees.

**Service potential**: the anticipated future benefits to be obtained from an asset. Assets that are used to deliver goods and services in accordance with an entity's objectives but do not directly generate net cash inflows are often described as embodying service potential.

**Short-term employee benefits**: employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the financial period in which the employees render the related service.

**Short-term investments**: those investments that are readily realizable and are intended to be held for not more than 12 months from the date of investment.

**Significant influence**: the power to participate in the financial and operating policy decisions of an activity; it does not constitute control or joint control over policies. Significant influence may be exercised in several ways, usually through representation on a board of directors or an equivalent governing body, but also through, for example, participation in policymaking processes, material transactions between the entities within an economic entity, the interchange of managerial personnel or dependence on technical information. Significant influence may be gained through an ownership interest, statute or agreement.

**Sinking fund**: a fund created for the repayment of a liability or the replacement of an asset.

**Spot exchange rate**: the exchange rate for immediate delivery.

**Standard cost**: a proxy for actual cost that facilitates the accurate recording of transactions where actual costs are difficult to determine at the individual transaction level.

**Straight-line method**: the method under which the periodic charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.

**Surplus**: the excess of revenue over expenses of an entity for an accounting period under consideration.

**Technical cooperation funds**: trust funds that provide economic and social development assistance to developing countries.

**Termination benefits**: employee benefits payable as a result of either: (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for these benefits.

**Transfers**: inflows of future economic benefits or service potential from non-exchange transactions other than taxes.

**Umoja**: the integrated enterprise resource planning system being deployed to support the full range of United Nations management administrative functions, including the preparation of financial statements based on the requirements of IPSAS.

**Useful life (of lease)**: the estimated remaining period, from the beginning of a lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in an asset are expected to be consumed by an entity.

**Useful life (of property plant and equipment)**: either: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.

**Unguaranteed residual value**: that portion of the residual value of a leased asset, the realization of which by the lessor is not assured or guaranteed solely by a party related to the lessor.

**Unearned finance revenue**: the difference between: (a) the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any non-guaranteed residual value accruing to the lessor; and (b) the present value of (a), at the rate implicit in the lease.

**Value in use of an asset**: the present value of an asset's remaining service potential.

**Venturer**: a party to a joint venture that has joint control over the joint venture.

**Voucher**: a document that serves as an authorization for any financial transaction and forms the basis for recording an accounting entry for transaction in the books of the original entry, e.g., a cash receipt voucher, bank receipt voucher or journal voucher.

**Weighted average cost**: an inventory valuation method used where different quantities of goods are purchased at different unit costs. Under this method, weights are assigned to the cost price on the basis of the quantity of each item at each price.

**Written-down value**: in respect of a fixed asset, its cost of acquisition or substituted value less accumulated depreciation.

**Work in progress**: goods in the process of production for their sale or use.