Decision No. (13) of 2025

Regarding the Adoption of the Accounting Policies Manual for the Government of Ajman

The Ruler's Representative for Administrative and Financial Affairs

- Having reviewed the Financial Law of the Government of Ajman, issued by Emiri Decree No. (11) of 2011 and its executive regulations.
- And Emiri Decree No. (15) of 2012 regarding the Department of Finance in Ajman and its amendments,
- And Emiri Decree No. (5) of 2017 regarding the Financial Audit Authority,
- And Emiri Decision No. (1) of 2019 regarding Financial Authorities in the Government of Ajman,
- And the Decision of the Ruler's Representative for Administrative and Financial Affairs No. (129) of 2011 regarding the adoption of the Accounting Manual for the Government of Ajman and its amendments.

And based on the proposal submitted by the Director General of the Department of Finance and our approval thereof, we have decided the following:

Article (1)

Adoption

The Accounting Policies Manual for the Government of Ajman, attached to this decision, is hereby adopted.

Article (2)

Responsibility of the Government Department

The government department must adhere to applying the accounting policies contained in the attached manual for entering and recording all financial and accounting transactions and issuing its final accounts for the fiscal year 2025 and subsequent fiscal years.

Article (3)

Responsibility of the Department of Finance

a. The Department of Finance shall be responsible for circulating the manual attached to this decision to all relevant government departments for its application, and for making necessary updates to it whenever required.

b. Subject to the legislation in force in the Emirate, the Department of Finance is responsible for monitoring the implementation of the manual, interpreting the provisions contained therein, clarifying any ambiguity or vagueness, and responding to any inquiries regarding it.

c. A government department may submit proposals for updating or amending the attached manual in accordance with the mechanism determined by the Department of Finance in this regard.

Article (4)

Repeal

Decision No. (129) of 2011 regarding the adoption of the Accounting Manual for the Government of Ajman is hereby repealed. Any text or provision contained in any previously issued decision that conflicts with or contradicts the provisions of this decision is also repealed.

Article (5)

Entry into Force

This decision shall come into effect as of the first of June 2025.

Issued on: 29/May/2025

Ahmed bin Humaid Al Nuaimi

Ruler's Representative for Administrative and Financial Affairs

Accounting Policies Manual

for the Government of Ajman

Manual's Table of Contents

Manual Update Tracking

Version	Issue Date	Prepared by	Notes
First	May 2025	Department of Finance	First edition issuance
Second			

How to Read the Manual

This manual presents the accounting policies applicable to government entities included in the general budget of the Government of Ajman. It includes:

- Definitions of the technical terms and words addressed.
- A general overview of the most important transactions covered by the policy and a clarification of the exceptions not covered by the policy.
- Accrual accounting policies adopted by the Government of Ajman, which have been developed based on International Public Sector Accounting Standards (IPSAS).
- Illustrative examples of the most important issues covered by the policy, to facilitate practical application.

Accounting Policies Manual

Chapter One - Tangible and Intangible Assets

Chapter Table of Contents

General Overview of Tangible and Intangible Assets for Government Entities

This chapter includes the accounting policies related to the recognition, initial and subsequent measurement, and presentation and disclosure requirements for tangible and intangible assets of government entities.

This policy enables:

1. Identifying the basic conditions for analyzing transactions and contractual arrangements and determining their nature;
2. Classifying tangible and intangible assets in government entities according to the nature of the transaction, not its form;
3. Presenting the basic conditions for capitalizing costs related to the acquisition of tangible and intangible assets that government entities must present in the statement of financial position;
4. Addressing the measurement bases for these assets, according to the nature of the transaction;
5. Subsequent measurement methods and relevant influencing factors, including depreciation and amortization methods, estimation of useful life, and impairment;
6. Presentation and disclosure requirements related to these assets.

Definitions

Term	Definition
Gross investment in the lease	It is the aggregate of: 1. The minimum lease payments receivable by the lessor under a finance lease; and 2. Any unguaranteed residual value accruing to the lessor.
Depreciation / Amortization	It is the systematic allocation of the depreciable/ amortizable amount of an asset over its useful life. In the case of intangible assets, the term "amortization" is generally used instead of "depreciation," and both terms have the same meaning.
Biological asset	Is a living animal or plant (other than bearer plants).
Bearer plant	A bearer plant is a living plant that: 1. Is used in the production or supply of agricultural produce; 2. Is expected to bear produce for more than one period; and 3. Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
Biological transformation	Comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.
Harvest	Is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.
Agricultural activity	Is the management of the biological transformation and harvest of biological assets for: 1. Sale;

Term	Definition
	2. Distribution at no charge or for a nominal charge; or Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.
Agricultural produce	Is the harvested product of the entity's biological assets.
Service concession asset	Is an asset used to provide public services in a service concession arrangement that: 1. Is provided by the operator, which: ◦ ✓ it constructs, develops, or acquires from a third party; or ◦ ✓ is an existing asset of the operator. 2. Is provided by the government entity (the grantor), which: ◦ ✓ is an existing asset of the government entity, or ◦ ✓ is an upgrade to an existing asset of the government entity.
Intangible asset	Is an identifiable non-monetary asset without physical substance.
Right-of-use asset	Is a real right to use an asset owned by another (a third party) that enables the government entity to exploit it.
Non-cash-generating assets	Are assets held for non-commercial purposes.
Cash-generating assets	Are assets held to generate a commercial return.
Impairment	Represents the loss in the future economic benefits or service potential of an asset, over and above the recognition of depreciation (amortization).

Term	Definition
	Therefore, the impairment of an asset reflects a decline in the future economic benefits or service potential embodied in the asset.
Contingent rent	Is that portion of the lease payments that is not fixed in amount but is based on a future factor that changes other than with the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest).
Unearned finance income	Is the difference between: 1. The gross investment in the lease; and 2. The net investment in the lease.
Research	Is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
Commencement of the lease term	Is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of:
Binding arrangement	1. The classification of the lease as either an operating lease or a finance lease; and 2. Initial recognition of the lease (i.e., the recognition of the assets, liabilities, income, or expenses resulting from the lease, as appropriate). It refers to contracts and other arrangements that grant similar rights and obligations to their parties as if they were in the form of a contract.
Service concession arrangements	

Term	Definition
	Is a binding arrangement between the government entity (the grantor) and an operator in which: 1. The operator uses the service concession asset to provide public services on behalf of the grantor for a specified period of time; and 2. The operator is compensated for its services over the period of the service concession arrangement.
Development	Is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.
Costs of disposal	Are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense (where applicable).
Costs to sell	Are the incremental costs attributable to the disposal of an asset, excluding finance costs and income taxes (where applicable). Disposal may occur through sale or through distribution at no charge or for a nominal charge.
Cost	The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.
Minimum lease payments	Are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services, and taxes to be paid by and reimbursed to the lessor, together with: 1. For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

Term	Definition
	2. For a lessor, any residual value guaranteed by any of: ◦ ✓ The lessee; ◦ ✓ A party related to the lessee; or
	• ✓ An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than 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, the minimum lease payments comprise the minimum payments payable over the lease term and the payment required to exercise this purchase option.
Impairment loss of a non-cash-generating asset	Is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
Impairment loss of a cash-generating asset	Is the amount by which the carrying amount of an asset exceeds its recoverable amount.
Active market	Is a market in which all the following conditions exist: 1. The items traded within the market are homogeneous; 2. Willing buyers and sellers can normally be found at any time; and 3. Prices are available to the public.
Net investment in the lease	Is the gross investment in the lease discounted at the interest rate implicit in the lease.

Term	Definition
Investment property	Is property (land or a building—or part of a building—or both) held by the government entity to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of operations.
Lease	Is 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. Any contract with modified terms is treated as a new lease, except for automatic contract renewals.
Operating lease	Is any lease that is not classified as a finance lease, meaning it does not substantially transfer all the risks and rewards incidental to ownership of a specific asset and does not result in the transfer of legal ownership of the asset at the end of the lease term.
Finance lease	Is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
Non-cancellable lease	Is a lease that is cancellable only: 1. Upon the occurrence of some remote contingency; 2. With the permission of the lessor; 3. If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or 4. Upon payment by the lessee of an additional amount such that, at inception of the lease, continuation of the lease is reasonably certain.
Initial direct costs	Are costs that are directly related to the negotiation and arrangement of a lease by the government

Term	Definition
	entity, which may include amounts such as commissions and legal fees.
Guaranteed residual value	Is that part of the residual value that is guaranteed by: 1. The lessee or a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); or 2. The lessor or a third party not related to the lessor that is financially capable of discharging the obligations under the guarantee.
Useful life	Is the period over which an asset is expected to be used by the government entity.
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.
Carrying amount	Is the cost of an asset less any accumulated depreciation and any accumulated impairment losses.
Fair value less costs to sell	Is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Unguaranteed residual value	Is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed only by a party related to the lessor.
Residual value of an asset	Is the estimated amount that the government entity would currently obtain from disposal of the asset, after deducting 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.

Term	Definition
Value in use of a non-cash-generating asset	Is the present value of the asset's remaining service potential.
Value in use of a cash-generating asset	Is the present value of the future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.
Grantor	Is the government entity that grants the right to use the service concession asset to the operator.
Recoverable amount	Is the higher of a cash-generating asset's: 1. Fair value less costs to sell; or 2. Its value in use (the amount recoverable from the use of the asset).
Depreciable amount	Is the cost of an asset, less its residual value.
Lease term	Is the non-cancellable period for which the lessee has contracted to lease the 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.
Operator	Is the private entity or third party that uses the service concession asset to provide public services subject to the control of the government entity (the grantor).
Interest rate implicit in the lease	Is the discount rate that, at the inception of the lease, causes the aggregate present value of: 1. The sum of: ◦ ✓ The minimum lease payments; and ◦ ✓ The unguaranteed residual value.

Term	Definition
	2. To be equal to the sum of: ◦ ✓ The fair value of the leased asset; and
	• ✓ Any initial direct costs of the lessor.
Incremental borrowing interest rate	The incremental borrowing interest rate is: 1. The rate of interest that a lessee would have to pay on a similar lease; or 2. If that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
Owner-occupied property	Is property held (by the government entity as owner or as a lessee under a finance lease) for use in the production or supply of goods, provision of services, or for administrative purposes.
Property, plant, and equipment	Are tangible items that are held by the government entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.
Cash-generating unit	Is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Qualifying asset	Is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
Loans and Payables	Are financial liabilities, excluding short-term trade payables that are on normal credit terms.

Term	Definition
Borrowing costs	Are interest and other expenses incurred by the government entity in connection with the borrowing of funds during the borrowing period.
Future economic benefits or service potential	The definition of future economic benefits or service potential is related to the net cash flows resulting from the use of assets to achieve the government entity's objectives. It is divided into: 1. Assets whose use indirectly generates net cash flows and are described as having "service potential"; 2. Assets whose use directly generates net cash flows and are described as having "future economic benefits."

Policy 1 - Property, Plant, and Equipment

Table of Contents for Property, Plant, and Equipment Policy

1. Policy Objective

This policy aims to understand and explain the accounting treatment for property, plant, and equipment, determine the requirements for the recognition and measurement of these assets, and explain the subsequent measurement, presentation, and disclosure requirements related to property, plant, and equipment. This policy also addresses the understanding and explanation of the accounting treatment for infrastructure assets and assets related to service concession arrangements.

This policy primarily addresses the following topics:

1. Determining the conditions for asset recognition;
2. Determining the initial measurement costs of these assets;
3. Tracking these assets by determining depreciation and impairment costs;
4. Derecognition cases and their treatment bases;
5. The basis for presenting these assets within the financial statements and their related disclosures.

2. Scope

The government entity applies this policy in accounting for all of the following:

Property, Plant, and Equipment	Infrastructure Assets	Assets related to Service Concession Arrangements
Are tangible assets used in the production or supply of services or goods, or for administrative purposes, and are expected to be used for more than one accounting period.	Are assets that meet some or all of the following characteristics: a. They are part of a system or network; b. They are specialized in nature and have no alternative uses;	Are assets that arise when a service provider is given the right to build and operate public service projects on behalf of the government entity according to specific terms in a binding agreement between the service provider (operator) and the government entity (grantor). When the government entity recognizes the assets based

Property, Plant, and Equipment	Infrastructure Assets	Assets related to Service Concession Arrangements
Examples include, but are not limited to: ✓ Land and buildings ✓ Machinery ✓ Furniture ✓ Cars or vehicles	c. They are immovable; d. They may be subject to constraints on disposal. For example: ✓ Road networks ✓ Sewerage systems	on control. Examples include, but are not limited to: ✓ A port ✓ A water treatment plant

This policy also covers heritage assets, which are characterized by their historical, environmental, or cultural significance, such as natural areas, reserves, monuments, archaeological sites, historic buildings, and works of art.

The following assets are outside the scope of this policy:

1. Biological assets related to agricultural activity ("Agriculture" policy), but this policy applies to bearer plants, though it does not apply to the produce on bearer plants;
2. Assets classified as investment property ("Investment Property" policy).
3. Mining rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources, and mineral reserves and similar non-regenerative resources. However, this policy applies to property, plant, and equipment used to develop or maintain the assets resulting from these operations.

3. Recognition

The government entity recognizes an item as property, plant, and equipment when the following conditions are met:

1. It is probable that future economic benefits or service potential associated with the item will flow to the government entity;
2. The cost or fair value of the item can be measured reliably; and
3. The government entity can demonstrate control over the asset.

Property, plant, and equipment can be recognized through exchange and non-exchange transactions as follows:

1. Exchange transactions: Assets are purchased/constructed when the government entity pays/spends the cash value equal to the value of the asset. For more details, please refer to the "Revenue from Exchange Transactions" policy.
2. Non-exchange transactions: When assets are acquired for no consideration or for a nominal consideration. This occurs when an asset is transferred to a specific government entity based on an agreement that imposes conditional clauses specifying how the asset is to be used or regulating its disposal. For more details, please refer to the "Revenue from Non-Exchange Transactions" policy.

The government entity identifies the significant parts of an asset, which usually have substantially different useful lives. The government entity recognizes each part separately (Section 6 below provides more details on the "componentization" of tangible assets).

Example - Recognition of Property, Plant, and Equipment through Exchange Transactions

At the beginning of the current year, the Department of Municipality and Planning purchased three buses from a third party for AED 600,000.

On this basis, the Department of Municipality and Planning recognizes the buses as property, plant, and equipment, as all conditions are met:

✓ Flow of economic benefits and service potential.
✓ The cost can be measured reliably.
✓ The Department of Municipality and Planning has gained control over the buses through their acquisition.

Accordingly, the Department of Municipality and Planning records the following entries:

Description	Statement	Debit	Credit
Fixed Asset – Buses	Financial Position	600,000	
Cash – Bank Account	Financial Position		600,000

4. Measurement at Initial Recognition

Assets are measured according to the nature of the transaction as follows:

Property, Plant, and Equipment through Exchange Transactions	Property, Plant, and Equipment through Non-Exchange Transactions
Property, plant, and equipment acquired through exchange transactions must be measured at cost, which consists of: 1. Its purchase price including import duties and non-refundable	Property, plant, and equipment acquired through non-exchange transactions must be measured at fair value on the date of acquisition.

Property, Plant, and Equipment through Exchange Transactions	Property, Plant, and Equipment through Non-Exchange Transactions
purchase taxes after trade discounts and rebates; 2. Any other direct costs incurred to bring the asset to the condition ready for its intended use; 3. The initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located to its original condition before the asset was placed.	

Examples of direct costs of an asset include:

1. Cost of employee benefits (as defined in the "Employee Benefits" policy) arising directly from the construction or acquisition of an item of property, plant, and equipment;
2. Cost of site preparation in the process of creating an asset;
3. Initial delivery costs;
4. Assembly and installation costs;
5. Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
6. Borrowing costs for qualifying assets (the "Borrowing Costs" policy).

Examples of costs that are not costs of an item of property, plant, and equipment are:

1. Costs of preparing to open new facilities;
2. Costs of introducing a new product or service (including costs of advertising and promotional activities);
3. Costs of conducting business in a new location or with a new class of customers (including costs of staff training);

4. Administrative and other general overhead costs.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Example: Recognizing an asset including its related costs

At the beginning of the current year, the Department of Economic Development purchased several computers from a third party for AED 1,000,000. The amount includes non-refundable customs duties of AED 20,000. In addition, the department incurred costs of AED 6,000 to transport the devices to the department's location and AED 4,000 for installation.

Based on this, the department records the following entries:

Description	Statement	Debit	Credit
Fixed Asset – Computers *	Financial Position	1,010,000	
Cash – Bank Account	Financial Position		1,010,000

* Calculated as follows: 1,000,000 + 6,000 + 4,000

5. Subsequent Measurement

The government entity shall record the asset that meets the above-mentioned recognition criteria at its cost less any accumulated depreciation and any accumulated impairment losses.

A class of property, plant, and equipment is a grouping of assets of a similar nature or function in the government entity's operations. The following are examples of separate classes:

1. Land;
2. Operational buildings;
3. Roads;
4. Machinery;

5. Vehicles;
6. Furniture and fixtures;
7. Office equipment.

5.1. Depreciation

Each asset or part of an asset within property, plant, and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The government entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates each such part separately.

When a government entity depreciates parts of an asset separately, it is expected that the other remaining parts of the asset will be depreciated in a fair manner consistent with the expected life of the remaining parts as a whole.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases upon its disposal. Therefore, depreciation of an asset does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.

5.1.1. Determining the Useful Life of an Asset

Future economic benefits or service potential are consumed by the government entity through its use of assets. However, other factors, such as technical obsolescence and wear and tear while an asset remains idle, may sometimes result in a reduction of the future economic benefits or service potential that would have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

1. The expected usage of the asset. Usage is assessed by reference to the asset's expected period of use;
2. Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used

and the repair and maintenance program, and the care and maintenance of the asset while it is idle;
3. Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The government entity determines the useful life for each asset (except for land, which is considered to have an indefinite useful life) based on the category to which the asset belongs.

5.1.2. Depreciable Amount

The depreciable amount of an asset is allocated on a straight-line basis over its useful life.

The depreciable amount of an asset is determined after deducting its residual value at the end of its useful life.

5.1.3. Depreciation Method

The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the government entity.

The depreciation method for allocating the depreciable amount of an asset on a systematic basis over its useful life is the straight-line method, which results in a constant charge over the useful life if the asset's residual value does not change.

6. Componentization

If an item of property, plant and equipment comprises two or more significant components with substantially different useful lives, the government entity shall treat each component as a separate item for depreciation purposes, and depreciate it over its own useful life. When a significant component of an asset is replaced or restored, the old component is derecognized to avoid double counting, and the new component is capitalized if its cost is recoverable.

The government entity shall recognize the costs of replacing an item as an asset if the recognition criteria are met. If those criteria are met and the cost is capitalized, the carrying amount of the replaced part or parts must be derecognized, which is the accumulated cost minus depreciation. This applies whether the replaced item or part was depreciated separately. If it is not practicable to determine the cost and depreciation of the replaced part or item, it is acceptable to use the replacement cost of the new part as an indication of the cost of the replaced part when it was acquired or constructed.

7. Subsequent Cost and Replacement of Asset Parts

The government entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day or routine servicing of the item. These costs are recognized in the statement of financial performance for the period in which the maintenance work was performed. The costs of day-to-day or routine maintenance consist primarily of the cost of labor and consumables, and may include the cost of small parts.

In the case of replacement of a part, the government entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this policy.

Example: Recognizing costs of replacing an item as an asset

The Department of Finance purchased a building for AED 2,500,000, and the useful life of this building was estimated at 25 years. At the end of the fifth year, the Department of Finance replaced the central air conditioning units for AED 50,000. However, at the initial recognition of the building, the Department of Finance could not measure and componentize the "air conditioning" element. On the date of the change, the department's financial statements show the following:

✓ Cost of the building AED 2,500,000.
✓ Accumulated depreciation AED 500,000.
✓ Carrying amount AED 2,000,000.

Based on this, the new air conditioning will be capitalized at cost, but the Department must derecognize the value of the replaced part. Since the Department could not componentize the air conditioning at initial recognition, the entity will adopt the cost of the new air conditioning as an indicative value to derecognize the value of the old air conditioning units. As for the accumulated depreciation, it will be calculated based on the principle of proportionality between the cost of the building and the value of the new air conditioning. Thus, the value of the derecognized accumulated depreciation is: (50,000 / 2,500,000) x 500,000 = AED 10,000.

Based on this, the department records the following entries:

<u>Recording the capitalization of the new AC unit</u>

Description	**Statement**	**Debit**	**Credit**
Fixed Asset – Building (New AC)	Financial Position	50,000	
Cash – Bank Account	Financial Position		50,000

<u>Recording the derecognition of the old AC unit</u>

Description	**Statement**	**Debit**	**Credit**
Accumulated Depreciation – Building (Old AC)	Financial Position	10,000	
Loss on Disposal	Financial Performance	40,000	
Fixed Asset – Building (Old AC)	Financial Position		50,000

Following the recording of these transactions, the asset register shows the following:

✓ Cost of the building AED 2,500,000.
✓ Accumulated depreciation AED 490,000.
✓ Carrying amount AED 2,010,000.

8. Self-Constructed / Developed Assets

The cost of a self-developed asset is measured using the same principles as for acquired assets. If a government entity develops similar assets for sale in the ordinary course of business, the cost of the asset is usually the same as the cost of producing the assets for sale, excluding any internal profits. The "Borrowing Costs" policy also establishes the conditions to be met before interest costs are recognized as a component of the cost of property, plant, and equipment, in addition to direct employee costs (such as engineers and workers who carry out the construction of the asset).

The government entity does not capitalize general and administrative overheads and start-up costs (such as administrative and IT staff). The only exception to this rule may be internally manufactured assets that the entity makes for sale. For example, but not limited to, the following costs are not included in a self-constructed/developed asset:

1. Wasted materials;
2. Costs related to design or manufacturing errors;
3. Production delays.

Example: Recognizing self-constructed / manufactured assets

In January 2017, the Department of Land and Real Estate Regulation drew up a plan to construct a private building for employees of a government entity. Accordingly, direct, indirect, fixed, and variable costs will be allocated to show the true value of the asset. The costs of work in progress as of the closing accounts date, December 31, 2017, included the following:

✓ Building materials used: AED 6,000,000
✓ Direct labor costs: AED 1,000,000
✓ Engineering costs: AED 480,000 *
✓ Depreciation: AED 320,000 **
✓ Other costs (energy, water, safety, and environmental costs): AED 200,000

Based on this, the balance of work in progress at the closing accounts date is AED 8,000,000.

In March 2018, upon completion of the project, the total value of the costs of work in progress amounted to AED 11,000,000. After the delivery of the building, the Department transferred the balance of work in progress to Property, Plant, and Equipment – Buildings.

Based on this, the department records the following entry:

Description	Statement	Debit	Credit
Fixed Asset – Buildings	Financial Position	11,000,000	
Construction in Progress	Financial Position		11,000,000

* Two engineers were assigned to supervise the construction project with an annual salary of AED 600,000, where 40% of each engineer's time was allocated to supervising this project. (2 x 600,000 x 0.4)

** This depreciation pertains to assets (machinery/equipment) used in the construction of this project.

9. Exchange of Assets

One or more items of property, plant, and equipment may be acquired in exchange (with another party) for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

1. the exchange transaction lacks commercial substance; or
2. the fair value of neither the asset received nor the asset given up is reliably measurable.

The acquired item is measured in this way even if the entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

The fair value of an asset for which comparable market transactions do not exist is reliably measurable if:

1. the variability in the range of reasonable fair value estimates is not significant for that asset; or
2. the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

10. Heritage Assets

This policy does not require a government entity to recognize heritage assets. However, if a government entity does recognize heritage assets (following the same measurement principles mentioned in this policy), it must apply the disclosure requirements contained in this policy.

Some assets are described as "heritage assets" because of their cultural, environmental, or historical significance. Examples of heritage assets include historic buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Heritage assets often display particular characteristics, including the following (although these characteristics are not exclusive to such assets):

1. Their cultural, environmental, educational, and historical value is unlikely to be fully reflected in a financial value based only on a market price;
2. Legal and/or statutory obligations may impose prohibitions or severe restrictions on their disposal by sale;
3. They are often irreplaceable and their value may increase over time even if their physical condition deteriorates;
4. It may be difficult to estimate their useful lives, which in some cases could be hundreds of years.

11. Computer Software Treated as an Integral Part of Property, Plant, and Equipment

Computer software may be classified under property, plant, and equipment if it is an integral part of the operation of any asset. To determine whether an asset that includes both intangible and tangible elements should be treated as part of property, plant, and equipment or as an intangible asset, judgement is required to assess which element is more significant. For example, when computer software for a computer operating system is not an integral part of the computer itself, such as accounting software, the computer software is treated as an intangible asset. The following are indicators considered as a basis for assuming that an asset is an integral part and classified as an item of property, plant, and equipment studied in this chapter:

1. The asset cannot be operated without the computer software;

2. The computer software is designed specifically for the needs of a particular asset;
3. The computer software cannot be used for any purpose other than the related asset.

12. Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognized:

1. on sale or disposal; or
2. when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in the statement of financial performance when the item is derecognized.

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

Example: Derecognition by sale

At the beginning of the current year, the Department of Municipality and Planning sold a machine with a carrying amount of AED 200,000 (cost of AED 300,000 less accumulated depreciation of AED 100,000) for AED 350,000 to a third party. After the delivery of the machine and the transfer of future risks and rewards and ownership of the machine to the buyer, the Department of Municipality and Planning records the following entries:

Description	Statement	Debit	Credit
Cash – Bank Account	Financial Position	350,000	
Accumulated Depreciation	Financial Position	100,000	
Fixed Asset – Machine	Financial Position		300,000
Gain on sale of fixed asset	Financial Performance		150,000

13. Disclosures

The government entity shall disclose in its financial statements the following:

1. The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category shall be disclosed;
2. The depreciation method – straight-line;
3. The useful lives or the depreciation rates used;
4. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
5. A reconciliation of the carrying amount at the beginning and end of the period showing:
    - ✓ Additions;
    - ✓ Disposals or dispositions;
    - ✓ Depreciation;
    - ✓ Impairment losses recognized or reversed in the statement of financial performance during the period under the policy "Impairment of Cash-Generating Assets" or the policy "Impairment of Non-Cash-Generating Assets";
    - ✓ Net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting government entity;
    - ✓ Other changes.
7. The amount of contractual commitments for the acquisition of assets.

Government entities that recognize heritage assets shall disclose certain matters regarding these assets, including, for example:

1. The measurement basis used;
2. The depreciation method used, if any;
3. The gross carrying amount;
4. The accumulated depreciation at the end of the period, if any;
5. A reconciliation of the carrying amount at the beginning and end of the period showing certain items therein.

Policy 2 - Intangible Assets

Table of Contents for Intangible Assets Policy

1. Policy Objective

This policy aims to prescribe the accounting treatment for intangible assets and their disclosure requirements so that users of financial statements can verify information relating to the government entity's intangible assets.

This policy primarily addresses the following topics:

1. Classification and identification of intangible assets;
2. Determining the recognition criteria for intangible assets;
3. Determining the initial measurement costs of intangible assets;
4. Determining the useful life and amortization methods for intangible assets with finite lives;
5. Monitoring intangible assets by determining amortization costs and impairment;
6. Cases of derecognition and the basis for their treatment;
7. The basis for presenting these assets within the financial statements and related disclosures.

2. Scope

This policy applies in accounting for intangible assets, except for:

1. Financial assets, as defined in the "Financial Instruments" policy;
2. Powers and rights granted by statute, constitution, etc.;
3. Intangible assets held by the government entity for sale in the ordinary course of business (see "Revenue from Construction Contracts" policy and "Inventory" policy);
4. Leases that fall within the scope of the "Leases" policy;
5. Assets arising from employee benefits (see "Employee Benefits" policy);
6. Initial recognition and measurement of service concession assets within the scope of the "Service Concession Arrangements: Grantor" policy. However, this policy applies to the subsequent measurement and disclosure of those assets.

This policy applies to expenditure on advertising, training, start-up, and research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component, i.e. the knowledge embodied in it.

3. Recording Intangible Assets

3.1. Recognition

A government entity shall recognize an intangible asset only if:

1. it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the government entity; and
2. the cost or fair value of the asset can be measured reliably.

A government entity assesses the probability of future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

A government entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

3.2. Measurement

The cost of a separately acquired intangible asset comprises:

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

Examples of directly attributable costs are:

1. employee benefits (as defined in the "Employee Benefits" policy) arising directly from bringing the asset to its working condition;
2. professional fees arising directly from bringing the asset to its working condition; and
3. costs of testing whether the asset is functioning properly.

Examples of expenditures that are not part of the cost of an intangible asset are:

1. costs of introducing a new product or service (including costs of advertising and promotional activities);
2. costs of conducting business in a new location or with a new class of service users (including costs of staff training);
3. administration and other general overhead costs.
4. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset.

3.2.1. Separate Acquisition - Purchase of Intangible Asset

The price an entity pays to acquire separately an intangible asset will normally reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the government entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow.

Regarding the second condition, which is reliable measurement, if an asset is acquired separately, the cost of the intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

Example - Recognizing an intangible asset through separate acquisition

At the beginning of the current year, the Department of Municipality and Planning purchased new software to operate its production equipment from a third party for AED 100,000, including non-refundable customs duties of AED 20,000.

In addition, the entity incurred costs of AED 6,000 in testing the software, AED 4,000 for installation, and AED 15,000 for the technical team's costs to make further necessary modifications to make the new software work as management intended.

Based on this, the Department of Municipality and Planning records the following entry:

Description	Statement	Debit	Credit
Intangible Asset - Software *	Financial Position	125,000	
Cash – Bank Account	Financial Performance		125,000

* Calculated as follows: 100,000 + 6,000 + 4,000 + 15,000

3.2.2. Intangible Assets Acquired through Non-Exchange Transactions

In some cases, an intangible asset may be acquired through a non-exchange transaction. This may occur when another government entity transfers intangible assets to another party (which can include a government entity or a third party) such as airport landing rights, licenses to operate radio or television stations, or licenses or rights of access to other restricted resources to a government entity in a non-exchange transaction.

3.2.3. Internally Generated Intangible Assets

3.2.3.1. Recognition

It is sometimes difficult for a government entity to assess whether an internally generated intangible asset qualifies for recognition. It is often difficult to:

1. identify whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and
2. determine the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity’s internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset.

The government entity assesses whether an internally generated intangible asset meets the recognition criteria, by classifying the generation of the asset into:

1. a research phase; and
2. a development phase.

If a government entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research Phase

No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred, as the government entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential.

Examples of research activities are:

1. activities aimed at obtaining new knowledge;
2. the search for, evaluation and final selection of, applications of research findings or other knowledge;
3. the search for alternatives for materials, devices, products, processes, systems or services; and
4. the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development Phase

The development phase is more advanced than the research phase. An intangible asset arising from this phase (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale.
2. its intention to complete the intangible asset and use or sell it.
3. its ability to use or sell the asset.

4. how the intangible asset will generate probable future economic benefits or service potential. The government entity shall demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. For example, through a business plan showing the technical, financial and other resources needed and the entity's ability to secure those resources.
6. its ability to measure reliably the expenditure attributable to the intangible asset during its development, such as salaries and other expenditure incurred to obtain copyrights or licenses or to develop computer software.

Examples of development activities are:

1. the design, construction and testing of pre-production or pre-use prototypes and models;
2. the design of tools, jigs, moulds and dies involving new technology;
3. the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production or service delivery use;
4. the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services; and
5. costs of building websites and costs of developing computer software.

Internally generated brand names, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets. Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the government entity's business as a whole.

3.2.3.2. Measurement

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria, which is when it meets the "development phase" conditions.

A government entity recognizes research or development expenditure that:

1. relates to an in-process research or development project acquired separately and recognized as an intangible asset; and
2. is incurred after the acquisition of that project.

Subsequent expenditure on an in-process research or development project acquired separately and recognized as an intangible asset is treated as follows:

1. recognized as an expense when incurred if it is research expenditure;
2. recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset; and
3. added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria.

The following items are not part of the cost of an internally generated intangible asset:

1. selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
2. inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
3. expenditure on training staff to operate the asset.

Example - Recognizing an internally generated intangible asset

At the beginning of the current year, the Ajman Local Police worked on creating a new system to help take more accurate radar violations and incurred the following expenses on raw materials and research and development:

✓ AED 100,000 on testing the system to detect new violations.
✓ AED 300,000 to evaluate the system's suitability.
✓ AED 150,000 to test the initial system.
✓ AED 200,000 on advertising campaigns.
✓ AED 500,000 for patent registration costs.

Accordingly, the government entity is ready to complete the new innovation and is able to market and sell it to the relevant persons. Based on this, the government entity reviews the basic conditions for recognizing an internally generated intangible asset, where it treats the patent registration costs as an internally generated intangible asset, in addition to the production testing costs, as the conditions for capitalizing development costs have been met. As for the other costs, they are recognized as expenses when incurred.

Based on this, the government entity records the transaction as follows:

Description	**Statement**	**Debit**	**Credit**
Intangible Asset – Patent *	Financial Position	650,000	
Expenses	Financial Performance	600,000	
Cash – Bank Account	Financial Position		1,250,000

* Calculated as follows: 150,000 + 500,000 (representing the costs of the initial test and patent registration costs)

3.2.4. Internally Generated Goodwill

3.2.4.1. Recognition

Internally generated goodwill shall not be recognized and therefore cannot be measured. This is because differences between the market value of the government entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the government entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this policy. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (it is not separable nor does it arise from binding arrangements (including rights from contracts or legal rights)) controlled by the entity that can be measured reliably at cost.

3.3. Subsequent Measurement

The government entity shall adopt the cost model for the subsequent measurement of intangible assets. A class of intangible assets is referred to as a group of assets of a similar nature and use in the government entity's operations. The intangible asset is recorded at cost less any accumulated amortization and any accumulated impairment losses.

3.3.1. Useful Life

A government entity shall assess whether the useful life of an intangible asset is finite or indefinite. If finite, it shall assess the length of that useful life. A government entity shall regard an intangible asset as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or provide service potential for the government entity.

The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized, whereas an intangible asset with an indefinite useful life is not.

A government entity shall review the amortization period for intangible assets with finite useful lives at least at each financial reporting date. If the remaining useful life of the asset differs significantly from previous estimates, the amortization period shall be changed accordingly. Such changes shall be accounted for as changes in accounting estimates under the policy "Accounting Policies, Changes in Accounting Estimates and Errors".

During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortization period needs to be changed.

The useful life of an intangible asset that is not being amortized shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with the policy "Accounting Policies, Changes in Accounting Estimates and Errors".

3.3.2. Amortization Period and Amortization Method

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a straight-line basis over its useful life. Amortization shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) or the date of disposal (whichever is earlier). The amortization method used shall reflect the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the government entity. The amortization charge for each period shall be recognized in the statement of financial performance unless this or another policy permits or requires it to be included in the carrying amount of another asset.

3.3.3. Residual Value at the End of Useful Life (Residual Value)

A government entity shall assume that the residual value of an intangible asset at the end of its useful life is zero unless:

1. there is a commitment by a third party to purchase the asset at the end of its useful life; or
2. there is an active market for the asset and:
    - ✓ residual value can be determined by reference to that market; and
    - ✓ it is probable that such a market will exist at the end of the asset's useful life.

Example – Amortization of intangible assets with finite useful lives

On January 1, 2018, the Department of Finance purchased new accounting software from a third party for AED 450,000. The useful life of the software was estimated at 10 years and the residual value at the end of the useful life is AED 50,000. In addition, the Department of Finance used the straight-line method to calculate the amortization value for the period.

Based on this, when preparing the closing accounts on December 31, 2018, the carrying amount of amortization is tracked as follows:

Description	Statement	Debit	Credit
Amortization Expense - Accounting Software *	Financial Performance	40,000	
Accumulated Amortization – Accounting Software	Financial Position		40,000

* Calculated as follows: (450,000 - 50,000) / 10, which is: (Cost of software - Residual value) / Useful life

3.3.4. Intangible Assets with Indefinite Useful Lives

A government entity shall not amortize an intangible asset with an indefinite useful life.

A government entity shall test an intangible asset with an indefinite useful life for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount, in accordance with the "Impairment of Cash-Generating Assets" policy or the "Impairment of Non-Cash-Generating Assets" policy. Accordingly, the government entity shall test these assets for impairment:

1. annually; and
2. whenever there is an indication that the intangible asset may be impaired.

4. Exchange of Assets

One or more intangible assets may be acquired by way of an exchange of a non-financial asset or assets, or a combination of financial and non-financial assets. One or more intangible assets may be purchased in exchange for a non-monetary asset or assets or a combination of monetary and non-monetary assets. This policy also applies to the exchange of one non-monetary asset for another.

A government entity measures the cost of such an intangible asset at fair value if this value can be reliably measured. If the purchased asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

The fair value of an intangible asset for which there are no comparable market transactions is reliably measurable if:

1. the variability in the range of reasonable fair value estimates is not material for that asset; or
2. the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If a government entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Example - Recognizing an intangible asset via asset exchange

At the beginning of the current year, a government entity acquired broadcasting rights for sports channels from a third party in exchange for 100 ounces of gold, when gold was trading at AED 4,000 per ounce. In addition, the entity incurred costs of AED 10,000 to register the official broadcasting right, AED 5,000 to advertise the new management, and AED 15,000 where the broadcasting technology team made further necessary adjustments to improve the broadcast quality as intended by management.

Based on this, the government entity reviews the basic conditions for recognizing an intangible asset generated through asset exchange, where it treats the fair value of the broadcasting rights (gold price) and the costs of registering the official broadcasting right as an intangible asset, and it is recognized, measured, and disclosed based on this policy. As for the other costs (which amount to AED 5,000 for advertising the new management.

and AED 15,000 for necessary modifications to improve broadcast quality are recognized as expenses when incurred.

Accordingly, the government entity records the following entry:

Description	**Statement**	**Debit**	**Credit**
Intangible asset - Broadcasting rights *	Financial Position	410,000	
Expenses	Financial Performance	20,000	
Cash - Bank account	Financial Position		430,000

* Calculated as follows: (4,000×100) + 10,000

5. Website Costs

The entity's website, intended for internal or external access, is considered an internally generated intangible asset subject to the requirements of this policy when the following conditions are met:

- The general recognition criteria mentioned in paragraph 3.2.3.1 of this policy.
- The specific recognition criteria for the development phase mentioned in paragraph 3.2.3.1 of this policy, particularly the condition that the government entity can demonstrate the website's ability to generate probable future economic benefits or expected services. For example, when the website is capable of generating revenue, including direct revenue from enabling users to place orders, or from providing services using the website, instead of providing them at a physical location using government civil servants. A government entity usually cannot demonstrate that a website developed exclusively or primarily for promoting and advertising its

products will generate probable future economic benefits or expected services, and consequently, all expenditure on developing such a website is recognized as an expense for the period.

Typically, the stages of website development include the following:

1. Planning: Includes feasibility studies, defining objectives and specifications, evaluating alternatives, and selecting preferences;
2. Application and Infrastructure Development: Includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications, and stress testing;
3. Graphic Design Development: Includes designing the appearance of the website pages;
4. Content Development: Includes creating, purchasing, preparing, and uploading information, either textual or graphical in nature, to the website before the completion of the website's development.

The government entity records the costs related to the "Planning" stage (Stage 1) as expenses for the relevant period (as addressed in paragraph 3.2.3.1 – Research Phase), while it recognizes the costs related to the subsequent stages (Application and Infrastructure Development stage, Graphic Design stage, and Content Development stage) as an intangible asset, until the website's operational stage begins (upon completion of the website's development).

6. Intangible Heritage Assets

Although this policy does not require the government entity to recognize heritage assets, the government entity shall disclose the nature of the assets.

Some intangible assets are described as intangible heritage assets because of their cultural, environmental, and historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the image of a significant public figure, for example, on a postage stamp or coin. Intangible heritage assets exhibit certain characteristics, including the following (although these characteristics are not exclusive to such assets):

1. Their historical, cultural, and environmental value is unlikely to be fully reflected in a market price alone;
2. Legal and/or statutory obligations may impose prohibitions or severe restrictions on their disposal by sale;
3. Their value may increase over time;
4. It may be difficult to estimate their useful lives, which in some cases could be hundreds of years.

7. Derecognition

The carrying amount of an intangible asset shall be derecognized:

1. On disposal; or
2. When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. Such gains or losses shall be recognized in the statement of financial performance (unless the "Leases" policy requires otherwise on a sale and leaseback).

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

Example - Derecognition by Disposal

At the beginning of the current year, the Department of Finance disposed of its accounting software with a carrying amount of AED 50,000 because the software was incompatible with new computers (cost of AED 300,000 less accumulated amortization of AED 250,000).

Accordingly, the Department of Finance records the following entries:

Description	**Statement**	**Debit**	**Credit**
Accumulated amortization	Financial Position	250,000	

Loss from disposal	Financial Performance	50,000	
Intangible asset - Accounting software	Financial Position		300,000

8. Disclosures

A government entity shall disclose the following in the financial statements for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

1. Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;
2. The amortization methods used for intangible assets with finite useful lives;
3. The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
4. The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;
5. A reconciliation of the carrying amount at the beginning and end of the period showing:

    ✓ Additions, indicating separately those from internal development and those acquired separately;

    ✓ Assets classified as held for sale or included in a disposal group classified as held for sale;

    ✓ Increases or decreases during the period resulting from revaluations (if any);

    ✓ Impairment losses recognized in the statement of financial performance during the period under the "Impairment of Cash-Generating Assets" policy or the "Impairment of Non-Cash-Generating Assets" policy (if any);

    ✓ Impairment losses reversed in the statement of financial performance during the period under the "Impairment of Cash-

Generating Assets" policy or the "Impairment of Non-Cash-Generating Assets" policy (if any);

✓ Any amortization recognized during the period;

✓ Other changes in the carrying amount during the period.

A government entity shall also disclose:

1. For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the government entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.
2. A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material to the government entity's financial statements.
3. For intangible assets acquired through a non-exchange transaction and initially recognized at fair value:

   ✓ The fair value initially recognized for these assets;

   ✓ Their carrying amount; and
4. The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.
5. The amount of contractual commitments for the acquisition of intangible assets.

The government entity shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period.

Government entities that recognize heritage assets shall disclose certain matters regarding these assets, including, for example:

1. The measurement basis used;
2. The depreciation method used, if any;
3. The gross carrying amount;

4. The accumulated depreciation at the end of the period, if any;
5. A reconciliation of the carrying amount at the beginning and end of the period showing specific components therein.

Policy 3 - Investment Property

Table of Contents for Investment Property Policy

1. Policy Objective

This policy aims to prescribe the accounting treatment for investment property and related disclosure requirements so that users of the financial statements can verify information related to the government entity's investment property.

This policy primarily addresses the following topics:

1. Identification and classification of investment property;
2. Determining the recognition criteria for investment property;
3. Determining the initial measurement costs of this investment property;
4. Monitoring this investment property by determining depreciation and impairment costs;
5. Disposal cases and the basis for their treatment;
6. Disclosures related to investment property.

2. Scope

This policy addresses the accounting for investment property, including measurement in the financial statements of a lessee of investment property held under a finance lease, and measurement in the financial statements of a lessor of investment property leased out under an operating lease. Other topics related to leases are covered in the "Leases" policy.

This policy does not apply to biological assets related to agricultural activity ("Agriculture" policy).

3. Identification and Classification of Assets as Investment Property

Investment property includes the following types of assets:

1. Property (building, land, or part of a building, or both) held to earn rentals or for capital appreciation;
2. Property owned by the government entity or held under a finance lease.

A particular government entity may manage the government's property portfolio on an accounting basis, in which case property held by this entity is defined as investment property, except for property held for resale in the ordinary course of operations.

Property (buildings and land) used for the purposes mentioned below is not considered investment property:

1. Those used for the purpose of producing goods or providing services;
2. Those used for administrative purposes;
3. Those that are sold in the ordinary course of the entity's business.

The following diagram provides a summary of the basic conditions for identifying investment property:

Building or land or part of a building or both

The asset is owned or leased under a finance lease

The asset generates rental income or capital appreciation

Is the purpose of using the asset:
For the production of goods or services or
For administrative purposes
For sale in the ordinary course of business

No → Use the "Investment Property" policy

Yes → Use the appropriate government accrual standard

Government entities sometimes hold certain properties that are used as follows:

1. Part of it, to earn rentals or for capital appreciation;
2. Another part, for use in the production or supply of goods or services or for administrative purposes.

If these parts can be sold separately (or leased out under a finance lease separately), each part is accounted for separately. If these parts cannot be sold separately, the property is classified as investment property only if an insignificant portion of it is held for use in the production or supply of goods or services or for administrative purposes.

4. Recognition

Investment property should be recognized as an asset only if the following conditions are met:

1. When it is probable that future economic benefits or service potential associated with the property will flow to the government entity;
2. When the cost of the fair value of the investment property can be measured reliably.

Upon initial recognition of investment property, the government entity assesses all costs related to the acquisition of these assets at the time they are incurred.

4.1 Exchange of Assets

One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an investment property is measured at fair value when the following conditions mentioned in paragraph 9 of the "Property, Plant and Equipment" policy are met.

5. Measurement at Initial Recognition

The initial measurement of assets is based on the nature of the transactions that led to their acquisition, as follows:

Investment property acquired through exchange transactions	**Investment property acquired through non-exchange transactions**
1. The initial measurement of investment property acquired through exchange transactions is at cost, which comprises: 2. Its purchase price, including professional fees for legal services, property transfer taxes, and other non-refundable purchase taxes, after deducting trade discounts and rebates. 3. Any other expenditure directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.	For investment property acquired through a non-exchange transaction, its cost shall be its fair value as at the date of acquisition.

The cost of investment property does not include the following:

a. Start-up costs, unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management;

b. Initial operating losses incurred before the investment property achieves the planned level of occupancy; or

c. Abnormal amounts of wasted material, labor, or other resources incurred in constructing or developing the property.

If payment for an investment property is deferred by a specific government entity, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

Example: Recognition of Investment Property

At the beginning of the current year, the Real Estate Regulatory Agency purchased a building from a third party for AED 3,000,000 with the intention of leasing it to private sector institutions. The purchase was financed by borrowing AED 3,000,000 (at 5% interest for 5 years), and borrowing fees amounted to AED 50,000. Direct property transfer expenses amounted to AED 60,000.

Accordingly, the following costs are recognized as part of the investment property:

a. Purchase price: AED 3,000,000

b. Accrued interest: not capitalized

c. Borrowing fees: not capitalized

d. Property transfer expenses: AED 60,000

Accordingly, the government entity records the following entry:

Description	**Statement**	**Debit**	**Credit**
Investment property - Building	Financial Position	3,060,000	
Cash - Bank account	Financial Position		3,060,000

The Department also developed the building, converting it into administrative offices and leasing them under operating leases to independent third parties. The expenses resulting from the development process included engineering and planning costs of AED 100,000 and building development costs of AED 1,350,000. Upon completion of the development and when the offices became ready for lease, these costs are recognized as part of the investment property:

Accordingly, the Department records the following entry:

Description	**Statement**	**Debit**	**Credit**
Investment property - Building	Financial Position	1,450,000	
Cash - Bank account	Financial Position		1,450,000

Accordingly, the total cost of this investment property (the building) amounts to AED 4,510,000.

The initial cost of property acquired under a finance lease and classified as investment property shall be recognized at the fair value of the property or, if lower, at the present value of the minimum lease payments. Additionally, a corresponding amount is recognized as a liability. For more details on what is stipulated in a finance lease, refer to the "Leases" policy.

6. Subsequent Measurement

A government entity shall apply the cost model after initial recognition, where all investment property, including investment property under construction, is subsequently measured in accordance with the "Property, Plant and Equipment" policy, which is at cost less any accumulated depreciation and any accumulated impairment losses.

This policy requires all government entities to determine the fair value of investment property for disclosure purposes.

7. Transfers

When the cost model is used, transfers between investment property, owner-occupied property, and inventory are made at the same carrying amount of the reclassified property, and the cost of this property is not changed for measurement or disclosure purposes.

Transfers to or from investment property should be made when, and only when, there is a confirmed change in use, evidenced by:

1. Commencement of owner-occupation (by the government entity), for a transfer from investment property to owner-occupied property;
2. End of owner-occupation (by the government entity), for a transfer from owner-occupied property to investment property;
3. Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventory to investment property;
4. Commencement of development with a view to sale, for a transfer from investment property to inventory.

Example - Recognition of Transfers from Investment Property to Property, Plant, and Equipment

At the beginning of the current year, the Department of Economic Development transferred a building leased as offices to private companies, with a carrying amount of AED 300,000 (cost of AED 3,000,000 less accumulated depreciation of AED 2,700,000), to a building for its own use as administrative offices. Upon commencement of use by the government entity, the entity transfers the building from investment property to property, plant, and equipment and records the transaction as follows:

Description	Statement	Debit	Credit
Fixed asset - Building	Financial Position	3,000,000	
Accumulated depreciation of fixed asset - Building	Financial Position		2,700,000
Accumulated depreciation of investment property - Building	Financial Position	2,700,000	
Investment property - Building			3,000,000

	Financial Position		

8. Disposal of Investment Property

The carrying amount of an investment property asset shall be derecognized:

1. On disposal; or
2. When no future economic benefits or service potential are expected from its use or disposal.

Investment property is disposed of by sale or by entering into a finance lease with another entity or a third party.

The gain or loss arising from the derecognition of investment property should be recorded in the statement of financial performance when the asset is derecognized.

The government entity determines the date of disposal of investment property (through a sale) and applies the requirements mentioned in Section 12 of the "Property, Plant and Equipment" policy.

If investment property is disposed of through a finance lease or a "sale and leaseback," the government entity applies the "Leases" policy.

Example – Derecognition by Sale

The Department of Lands and Real Estate Regulation sold a building, classified as investment property, with a carrying amount of AED 200,000 (cost of AED 3,000,000 less accumulated depreciation of AED 2,800,000), for AED 500,000 to a third party.

Upon delivery of the building and transfer of risks, future benefits, and ownership to the buyer, the Department records the following entries:

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	500,000	
Accumulated depreciation	Financial Position	2,800,000	
Investment property – Building	Financial Position		3,000,000

Gain on sale	Financial Performance		300,000

9. Disclosures

The disclosures set out below apply in addition to those in the "Leases" policy. An entity that owns investment property provides disclosures about existing leases. A government entity that holds investment property under a finance or operating lease also provides lessee disclosures for finance leases and lessor disclosures for any existing operating leases.

The government entity shall disclose the following:

1. Disclosure of the application of the cost model;
2. In what circumstances property interests are classified and accounted for as investment property;
3. The criteria used by the government entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business when classification is difficult;
4. The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the government entity shall disclose) because of the nature of the property and a lack of comparable market data;
5. Disclose whether the fair value of investment property included in the financial statements (whether by way of measurement or disclosure) was arrived at based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The government entity shall also disclose the fact that such a valuation was not obtained if it was not used;
6. The amounts included in the statement of financial performance for all of the following:
    - ✓ Rental income from investment property;

✓ Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period;

✓ Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period;

7. Disclosure of the existence of restrictions on the realizability of investment property income or the remittance of income and proceeds of disposal, as well as the extent of those restrictions;
8. Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.

In addition, the government entity shall disclose the following:

1. The depreciation method - straight-line;
2. The useful life or the depreciation rates used;
3. The gross carrying amount and the accumulated depreciation (including accumulated impairment losses) at the beginning and end of the period;
4. A reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following (comparative information is not required):

✓ Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;

✓ Additions resulting from acquisitions through government entity combinations;

✓ Disposals of property;

✓ Depreciation;

✓ The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with the "Impairment of Cash-Generating Assets" or "Impairment of Non-Cash-Generating Assets" policy, as appropriate;

✓ The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of financial statements that are included in a currency different from the presentation currency (i.e., AED);

✓ Transfers to and from inventory and owner-occupied property;

✓ Other changes;

5. The fair value of investment property. When a government entity cannot determine the fair value of an investment property reliably, it shall disclose the following:

✓ A description of the investment property;

✓ An explanation of why fair value cannot be determined reliably;

✓ If possible, the range of estimates within which fair value is highly likely to lie.

6. Determination of the fair value of investment property.

Definition and Determination of Fair Value for Investment Property

1. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances, such as conditional financing, sale-and-leaseback arrangements, and special considerations or concessions granted by anyone associated with the sale.
2. A government entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.
3. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future economic benefits from this future expenditure.
4. The best evidence of fair value is normally given by current prices in an active market for similar property in the same location and

condition and subject to similar lease and other contracts. The government entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms and other contracts related to the property.

5. In the absence of current prices in an active market, a government entity considers information from a variety of sources, including:

    ✓ Current prices in an active market for properties of different nature, condition, or location, or subject to different lease or other contracts, adjusted to reflect those differences;

    ✓ Recent prices on less active markets, with adjustments to reflect any change in economic conditions since the date of the transactions that occurred at those prices; and

    ✓ Projections of future cash flows, based on the terms of any existing leases and other contracts and on external evidence such as current market rents for similar properties in the same area and condition, and using discount rates that reflect the market's assessment of the uncertainty in the amount and timing of the cash flows.

In some cases, the various sources may lead to different conclusions regarding the fair value of an investment property. The government entity should consider the reasons for these differences in order to arrive at a reliable and transparent estimate of fair value.

Policy 4 - Leases

Table of Contents for Leases Policy

1. Policy Objective

This policy aims to define and classify leases, in addition to determining the recognition and measurement criteria for transactions resulting from these contracts, and the basis for presenting and disclosing related information in the financial statements of government entities in Ajman.

This policy addresses the following topics:

1. Presenting the basic conditions for determining whether an arrangement contains a lease;
2. Classifying leases as either finance leases or operating leases;
3. The basis for recognition and measurement of transactions resulting from leases by the lessee;
4. The basis for recognition and measurement of transactions resulting from leases by the lessor;
5. Addressing "sale and leaseback" transactions and how to account for them;
6. Presenting the most important information that must be disclosed in the financial statements of the lessor and lessee.

2. Scope

This policy applies to leases of any government entity under the Government of Ajman, and it applies to all leases except:

1. Lease agreements for the use of oil, gas, forests, minerals, and other mineral rights; and

2. Licensing agreements for items related to intellectual property and copyrights such as films, video recordings, plays, manuscripts, and copyrights.

3. Determining whether an Arrangement contains a Lease

Government entities may enter into agreements under which a government entity can obtain the right to use an asset for a specified period of time, or agreements under which the Government of Ajman grants the right to use an asset to another party (including another government entity or a third party) for a specified period of time.

When entering into such an agreement, the government entity determines whether the agreement contains a lease or not. This is done by verifying the following two basic conditions:

1. Fulfillment of the arrangement is dependent on the use of a specific asset or assets;
2. The arrangement conveys a right to use the specified asset or assets.

The diagram below summarizes the application of the conditions to determine whether an arrangement contains a lease.

Is there a contractual relationship?

↓ Yes

Does the arrangement relate to a specific asset?

↓ Yes

Does the arrangement grant the right to use the asset?

↓ Yes

The arrangement is considered a lease

In the questions above, if the answer is "No" at any stage, the arrangement is not considered a lease.

Example – Evaluating a Service Agreement to Determine if it Contains a Lease

The Ajman Department of Finance entered into an agreement with a third party (a private institution) to lease land for educational and academic services in exchange for an agreed-upon annual amount. In order to fulfill the terms of this arrangement, the institution was required to build a medical college on the land leased from the government.

The agreement also stipulates that seats must be available for citizens selected by the Department.

Accordingly, the Department evaluates this agreement and determines whether it contains a lease or not.

After confirming the existence of a contractual agreement between the two parties, the Department evaluates the two basic conditions to determine whether a lease exists within this agreement:

a. Condition 1 – Does fulfillment of the agreement depend on the use of a specific asset?

Yes, as the institution would not be able to provide the agreed-upon services (providing education) without the asset (the land on which the academy building will be constructed).

b. Condition 2 - Does the arrangement convey the right to use the asset?

Yes, the agreement enables the private institution to obtain all the profits from the college exclusively for a major part of the economic life of the asset.

Therefore, the agreement meets all the conditions mentioned above and contains a lease.

The remaining sections of the guide show how to classify this contract and the basis for recognizing and measuring its components.

4. Classification of Leases

A lease is classified as follows:

1. **Finance Lease:** A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred at the end of the contract period.

2. **Operating Lease:** All leases that do not meet the definition of a "finance lease," where not all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee.

Leases should be classified according to their substance and financial reality, not merely their legal form. Leases are classified based on the extent to which one of the parties bears the risks associated with the asset and the rewards associated with ownership of the leased asset. These two elements can be verified through the following:

Risks	**Rewards**
1. The party that bears the risk of potential losses from non-use of the asset, technological obsolescence, or a decrease in the asset's value due to changing economic conditions; 2. The party that bears the risk of repairs and maintenance of the asset; 3. The party that bears the risk of insurance costs/losses.	1. Economic benefits arise from using the asset over its useful life; 2. The asset generates profitable operations over its useful life; 3. Realizing gains from the disposal of the asset's residual value.

4.1. Indicators for Classifying a Lease as a Finance Lease

Government entities classify a lease as a finance lease if one of the following indicators is present:

1. The lease transfers ownership of a specific asset to the lessee by the end of the lease term;
2. 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, such that it is reasonably certain, at the inception of the lease, that the option will be exercised;
3. The lease term is for the major part of the economic life of the asset even if title is not transferred. The lease term is considered to be a

"major part of the economic life of the asset" when the lease term represents or exceeds 75% of the economic life of the asset;

4. At the inception of the lease, the present value of the "minimum lease payments" stipulated in the contract amounts to at least substantially all of the fair value of the leased asset;
5. The leased assets are of such a specialized nature that only the lessee can use them without major modifications;
6. The leased assets cannot be easily replaced by other assets.

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### Example – Classifying a contract based on the economic life of the asset

The Department of Finance has leased 10 cars. The contract stipulates that the cars are leased for a period of 4 years, knowing that the economic life of these cars is 5 years.

On this basis, the contract period (4 years) covers a substantial part of the car's economic life (5 years), as a period of 4 years out of 5 years is sufficient to provide indicators for classifying the contract as a finance lease (equating to 80% of the asset's life).

### Example 1.3 – Classifying a contract based on the minimum lease payments

On March 1, 2018, the Department of Human Resources entered into a contract to lease a machine for a period of 3 years. The fair value of the machine on the date of concluding the contract is AED 320,000.

The monthly lease payments amount to AED 10,000, paid at the end of the month (payments start from March 31, 2018, for 36 months). The department uses a borrowing interest rate of 8% to assess the present value of future payments in similar financing operations.

On this basis, the department assesses the present value of the "minimum lease payments" as follows:

✓ Monthly payments: AED 10,000.
✓ Monthly rate: (8%/12) or 0.667%
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✓ Number of payments: 36 payments

❖ Present value of "minimum lease payments": *AED 319,118.

*This amount is calculated using the "Present Value of an Annuity" formula, which is calculated as follows:

$$p\,[\;1 - (1 + r)^{-n}\;] / r$$

- Where the letter P represents the monthly payments.
- Where the letter r represents the monthly rate.
- Where the letter n represents the number of payments.

Therefore, the department classifies the agreement as a finance lease, since the present value of the minimum lease payments is approximately equal to the fair value of the asset at the inception of the contract.

On this basis, the accounting entry that Ajman Hospital will record at the commencement of the lease contract is as follows:

Description	Statement	Debit	Credit
Asset from a finance lease - Machine	Financial Position	319,118	
Liability related to a finance lease	Financial Position		319,118

5. Recording leases in the lessee's financial statements

5.1. Finance Lease

5.1.1. Initial measurement of finance leases

At the commencement of the lease term and upon its classification as a finance lease, the government entity (lessee) shall recognize in its statement of financial position the leased asset under assets and the liability for lease payments under liabilities.

The amount to be recognized as an asset and a liability is the lower of:

1. The fair value of the leased asset at the inception of the lease; or
2. The present value of the minimum lease payments. When calculating the present value of the minimum lease payments, the interest rate used for discounting is the interest rate implicit in the lease, if it is

practicable to determine; otherwise, the lessee's incremental borrowing rate shall be used.

The government entity determines the interest rate implicit in the lease using the following equation, where:

The sum of the present value of: The minimum lease payments, plus The unguaranteed residual value.	=	**The sum of:** The fair value of the leased asset, plus Any initial direct costs of the lessor.

The lessee's incremental borrowing rate of interest is:

1. The rate of interest the government entity (lessee) would have to pay on a similar lease; or
2. If that is not available, the rate that, at the inception of the lease, the government entity would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase a similar asset.

The government entity includes any initial direct costs of the lessee's activities in a finance lease as part of the amount recognized as an asset under the contract, for example, in the case of negotiating to secure lease agreements.

5.1.2. Subsequent measurement of the asset

The subsequent measurement of the asset is as follows:

1. If it is certain that the government entity (lessee) will obtain ownership of the asset at the end of the contract term, depreciation is measured and recorded on the basis described in the standards mentioned above.
2. If it is not reasonably certain that the government entity (lessee) will obtain ownership by the end of the lease term, the asset must be fully depreciated over the shorter of:
    - ✓ The lease term; or

✓ Its useful life.

5.1.3. Subsequent measurement of the liability

The government entity shall apportion the minimum lease payments between the finance charge and the reduction of the outstanding liability. The government entity shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Regarding contingent or incidental payments related to the lease, the government entity records them as expenses in the period in which they are incurred.

Example – Recording transactions related to a finance lease in the lessee's accounts

On January 1, 2016, Ajman Digital Government (the lessee) entered into a lease agreement for a machine for electronic government transactions. The lease term extends over 3 years, and it was agreed that the machine would be returned to the lessor. The annual payments amount to AED 150,000, paid at the end of the year (December 31, 2016, December 31, 2017, and December 31, 2018). The implicit interest rate for this contract is estimated at 5%.

In addition, the entity will be required to pay contingent rent, where it was agreed that the government entity would pay 2% of the revenue generated from the use of the machine.

At the inception of the contract, the fair value of the machine is estimated at AED 410,000, and its useful life is estimated at 4 years.

During the contract period, the government entity generated revenues from the use of the machine as follows:

First Year	AED 210,000
Second Year	AED 290,000
Third Year	AED 320,000

Step One - Determine the value of the asset and liability to be recorded at initial recognition.

Based on the available information, the present value of the "minimum lease payments" is calculated, which amounts to AED 408,487.

*This amount was calculated as follows: $408{,}487 = 150{,}000 / (1.05)^1 + 150{,}000 / (1.05)^2 + 150{,}000 / (1.05)^3$

Therefore, at the commencement of the lease, the asset and liability are recorded as follows:

Description	Statement	Debit	Credit
Asset from a finance lease - Machine	Financial Position	408,487	
Liability related to a finance lease	Financial Position		408,487

Step Two - Determine the value of finance costs and liability reduction related to lease payments

Date	Payments	Finance Costs	Liability Reduction	Liability Balance
January 1, 2016	-	-	-	408,487
December 31, 2016	150,000	20,424*	129,576**	278,911***
December 31, 2017	150,000	13,946	136,054	142,857
December 31, 2018	150,000	7,143	142,857	0

These amounts were calculated as follows:

* Liability balance at the beginning of the period x interest rate: 408,487 * 5% = 20,424.

** Apportioning the payment value between finance costs and liability reduction: 150,000 – 20,424 = 129,576.

*** Determining the remaining liability value for the rest of the period: 408,487 – 129,576 = 278,911.

Note: Contingent rents are recorded when they become due as per the agreement, and are not included in determining the liability value at the commencement of the contract.

Step Three - Record entries for lease payment and asset depreciation at the end of each year

On December 31, 2016

(1) Record asset depreciation expense over the shorter of the contract term (3 years) and its useful life (4 years)

Description	Statement	Debit	Credit
Depreciation expense - Machine Equal to (408,487) divided by 3 years	Financial Performance	136,162	
Accumulated depreciation - Machine	Financial Position		136,162

(2) Record lease payments and reduction of the contract-related liability.

Description	Statement	Debit	Credit
Liability related to a finance lease	Financial Position	129,576	
Finance costs	Financial Performance	20,424	
Contingent rent expense (AED 210,000 × 2%)	Financial Performance	4,200	
Cash - Bank account	Financial Position		154,200

On December 31, 2017

(1) Record depreciation expense

Description	Statement	Debit	Credit
Depreciation expense - Machine	Financial Performance	136,162	
Accumulated depreciation - Machine	Financial Position		136,162

(2) Record lease payments and reduction of the contract-related liability.

Description	Statement	Debit	Credit
Liability related to a finance lease	Financial Position	136,054	
Finance costs	Financial Performance	13,946	
Contingent rent expense (AED 290,000 × 2%)	Financial Performance	5,800	
Cash - Bank account	Financial Position		155,800

On December 31, 2018

Record depreciation expense

Description	Statement	Debit	Credit
Depreciation expense - Machine	Financial Performance	136,162	
Accumulated depreciation - Machine	Financial Position		136,162

(1) Record lease payments and reduction of the contract-related liability.

Description	Statement	Debit	Credit
Liability related to a finance lease	Financial Position	142,857	
Finance costs	Financial Performance	7,143	
Contingent rent expense (AED 320,000 × 2%)	Financial Performance	6,400	
Cash - Bank account	Financial Position		156,400

5.2. Operating Leases

Lease payments under an operating lease shall be recognized as an expense when they become due (excluding costs for services such as insurance and maintenance) on a straight-line basis over the lease term.

Payments for services such as insurance and maintenance are recognized separately and disclosed in the period in which they occur.

When a lease includes a fixed escalation rate (e.g., 3% annually), the government entity shall calculate the total cost of the lease comprehensively (over the lease term) and then determine the rent value on a straight-line basis over the lease term.

Determining the rent value on a straight-line basis over the lease term usually results in a difference between the actual lease payments and the straight-line amounts, which requires the recognition of a financial asset or liability in the statement of financial position, as follows:

1. Financial asset: if the actual amount paid is higher than the straight-line amount;
2. Financial liability: if the actual amount paid is lower than the straight-line amount.

The government entity does not calculate the total cost of the lease on a straight-line basis over the lease period in the following cases:

1. The lease is for an indefinite period;
2. The lease is on a month-to-month basis;
3. There is no increase in the value of the lease payments.

Example - Leasing a building through an operating lease

On January 1, 2015, the Ajman Department of Land and Real Estate Regulation leased a building for a period of 5 years, with an annual rent of AED 450,000, with an agreement to increase the rent value annually (starting from the end of the first year) by 5%.

The rent is paid annually, at the end of the year (December 31).

On this basis, the government entity determines the rent value on a straight-line basis over the lease term as follows:

Year	Contract Value *	Payments **	Straight-line Rent ***	Asset (Liability)
Year 1	450,000	450,000	497,307	(47,307)
Year 2	472,500*	472,500	497,307	(24,807)

Year	Contract Value *	Payments **	Straight-line Rent ***	Asset (Liability)
Year 3	496,125	496,125	497,307	(1,182)
Year 4	520,931	520,931	497,307	23,624
Year 5	546,978	546,978	497,307	49,671
Total	2,486,534	2,486,534	2,486,534	0

* The next year's rent value is calculated as follows: (Current Year × 1.05).

** Lease payments as agreed in the contract (rent escalation)

*** Straight-line rent: Total payments divided by the lease term: (2,486,534 / 5)

Accounting entries are recorded annually as follows:

At the end of the first year - on December 31, 2015

Description	Statement	Debit	Credit
Expenses - Rent	Financial Performance	497,307	
Cash - Bank account	Financial Position		450,000
Financial liability - related to straight-line rent determination	Financial Position		47,307

At the end of the second year – on December 31, 2016

Description	Statement	Debit	Credit
Expenses - Rent	Financial Performance	497,307	
Cash - Bank account	Financial Position		472,500
Financial liability - related to straight-line rent determination	Financial Position		24,807

At the end of the third year – on December 31, 2017

Description	Statement	Debit	Credit
Expenses - Rent	Financial Performance	497,307	
Cash - Bank account	Financial Position		496,125
Financial liability - related to straight-line rent determination	Financial Position		1,182

At the end of the fourth year - on December 31, 2018

Description	Statement	Debit	Credit
Expenses - Rent	Financial Performance	497,307	
Financial liability - reduction of liability from straight-line rent determination, until zeroed out	Financial Position	23,624	
Cash - Bank account	Financial Position		520,931

At the end of the fifth year - on December 31, 2019

Description	Statement	Debit	Credit
Expenses - Rent	Financial Performance	497,307	
Financial liability - reduction of liability from straight-line rent determination, until zeroed out	Financial Position	49,671	
Cash - Bank account	Financial Position		546,978

Incentives received under a lease are recognized as an integral part of the lease, regardless of the nature, form, or timing of the incentives. The government entity considers the incentives as a reduction in rent expense when determining the rent value on a straight-line basis over the lease term.

Example - Leasing a building through an operating lease with incentives

The data from the previous example will be considered.

In addition to that data, the lessor incentivized the Ajman Department of Land and Real Estate Regulation to contract for an additional year (6 years), by paying half the rent for that year.

On this basis, the government entity determines the rent value on a straight-line basis over the lease term as follows:

Year	**Contract Value ***	**Payments ****	**Straight-line Rent*****	**Asset (Liability)**
Year 1	450,000	450,000	462,283	(12,283)
Year 2	472,500	472,500	462,283	10,217
Year 3	496,125	496,125	462,283	33,842
Year 4	520,931	520,931	462,283	58,648
Year 5	546,978	546,978	462,283	84,695
Year 6	574,327	287,163	462,283	(175,120)
Total	3,060,861	2,773,697	2,773,697	0

* The next year's rent value is calculated as follows: (Current Year × 1.05).

** Lease payments as agreed in the contract (rent escalation)

*** Straight-line rent: Total payments divided by the lease term: (2,773,697 / 6)

The accounting entries are recorded in the same manner as shown in Example 1.6.

6. Recording leases in the lessor's financial statements

6.1. Finance Leases

Typically, the recognition of finance lease transactions in the lessor's accounts results in recording the following:

1. Recognition of a financial asset, at the gross investment value, resulting from the derecognition of the leased asset;
2. Sales revenue resulting from the transfer of all risks and rewards associated with the leased asset;
3. Assessment of finance income, at the inception of the contract, and its recording as deferred revenue over the contract term;
4. Recording of finance income when it becomes due.

The government entity (lessor) records the lease payments receivable under a finance lease as assets in its statement of financial position. These assets must be presented as receivables at an amount equal to the net investment in the lease.

All risks and rewards associated with legal ownership are effectively transferred by the lessor under a finance lease. Therefore, lease payments receivable by the lessor are treated as repayment of the principal amount and finance income to compensate the lessor for its investment and services.

6.1.1. Measurement of assets resulting from finance leases

The gain or loss resulting from a finance lease and recorded at the beginning of the finance lease by the government lessor is calculated by determining:

1. Sales revenue: The fair value of the asset or the present value of the minimum lease payments receivable by the lessor, calculated at the interest rate implicit in the lease, whichever is lower.
2. Cost of sales: The cost, or carrying amount if different, of the leased asset less the present value of the unguaranteed residual value.
3. The difference between the sales revenue and the cost of sales is the gain or loss on sale recognized by the government lessor.

Subsequently, the government lessor measures the net investment, which represents the total lease-related amounts discounted using the interest rate implicit in the lease:

The total lease-related amounts include:

1. The minimum lease payments receivable;
2. The unguaranteed residual value of the asset that accrues to the lessor.

Initial direct costs are recognized as an expense at the beginning of the lease term because they are mainly related to the government lessor's realization of a gain or loss on the sale.

Example – Recording transactions related to a finance lease in the lessor's accounts

On January 1, 2016, the Police (lessor) entered into a car lease agreement. The lease term extends over 3 years, with annual payments of AED 150,000 paid at the end of the year (December 31, 2016, December 31, 2017, and December 31, 2018). The implicit interest rate for this contract is estimated at 5%.

In addition, the carrying amount of the car in the Police's accounts at the time of the agreement is AED 380,000, while the fair value of the asset is estimated at AED 410,000.

Step One - Determine the value of the net investment.

Based on the available information, the value of the net investment is calculated by determining the present value of the lease-related amounts, which is AED 408,487.

*This amount was calculated as follows: 408,487 = $(150{,}000/(1.05)^1) + (150{,}000/(1.05)^2) + (150{,}000/(1.05)^3)$

At the commencement of the lease, the following entry is recorded:

Description	Statement	Debit	Credit
Financial asset from a finance lease - Gross investment	Financial Position	450,000	

Description	Statement	Debit	Credit
Deferred finance income (Liability) (3 × 150,000) - 408,487	Financial Position		41,513
Derecognition of a fixed asset - Leased machine	Financial Position		380,000
Revenue related to derecognition of a fixed asset (408,487 - 380,000)	Financial Performance		28,487

Step Two - Determine the value of finance income and record lease-related revenues:

Date	Payments	Finance Income	Investment Collection	Investment Balance
January 1, 2016	-	-	-	408,487
December 31, 2016	150,000	20,424*	129,576**	278,911***
December 31, 2017	150,000	13,946	136,054	142,857
December 31, 2018	150,000	7,143	142,857	0

These amounts were calculated using the following equations:

* Net investment at the beginning of the period x interest rate: 408,487 x 5% = 20,424

** Apportioning the payment value between finance income and net investment collection: 150,000 - 20,424 = 129,576.

*** Determining the value of the net investment to be collected during the remaining periods: 408,487 – 129,576 = 278,911.

Step Three – Record entries for rent and finance income at the end of each year

On December 31, 2016

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	150,000	
Financial asset from a finance lease - Gross investment	Financial Position		150,000
Deferred finance income (Liability)	Financial Position	20,424	
Finance income	Financial Performance		20,424

On December 31, 2017

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	150,000	
Financial asset from a finance lease - Gross investment	Financial Position		150,000
Deferred finance income (Liability)	Financial Position	13,946	
Finance income	Financial Performance		13,946

On December 31, 2018

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	150,000	
Financial asset from a finance lease - Gross investment	Financial Position		150,000
Deferred finance income (Liability)	Financial Position	7,143	
Finance income	Financial Performance		7,143

6.2. Operating Leases

The government lessor shall measure lease income under operating leases on a straight-line basis over the lease term.

Example - A government entity leases out a building (operating lease)

On January 1, 2015, the Ajman Department of Land and Real Estate Regulation entered into a lease agreement for a building for a period of 5 years, with an annual rent of AED 450,000, and an agreement to increase the rent value annually (starting from the end of the first year) by 8%.

The rent is paid annually, at the end of the year (December 31).

On this basis, the government entity determines the lease value on a straight-line basis over the lease term as follows:

Year	Contract Value	Amounts Collected	Straight-line Rent	Asset (Liability)
Year 1	450,000	450,000	497,307	47,307
Year 2	472,500*	472,500*	497,307	24,807
Year 3	496,125	496,125	497,307	1,182
Year 4	520,931	520,931	497,307	(23,624)
Year 5	546,978	546,978	497,307	(49,671)
Total	2,486,534	2,486,534	2,486,534	0

* The next year's rent value is calculated as follows: (Current Year * 1.05).

** Lease payments as agreed in the contract (rent escalation)

*** Straight-line rent: Total payments / lease term (2,486,534 / 5)

Accounting entries are recorded annually as follows:

At the end of the first year - on December 31, 2015

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	450,000	
Financial asset – Accrued rents	Financial Position	47,307	
Rental income	Financial Performance		497,307

At the end of the second year – on December 31, 2016

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	472,500	
Financial asset – Accrued rents	Financial Position	24,807	
Rental income	Financial Performance		497,307

At the end of the third year – on December 31, 2017

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	496,125	
Financial asset – Accrued rents	Financial Position	1,182	
Rental income	Financial Performance		497,307

At the end of the fourth year - on December 31, 2018

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	520,931	
Financial asset - Accrued rents (reduction)	Financial Position		23,624
Rental income	Financial Performance		497,307

At the end of the fifth year – on December 31, 2019

Description	Statement	Debit	Credit
Cash - Bank account	Financial Position	546,978	

Description	Statement	Debit	Credit
Financial asset – Accrued rents (reduction)	Financial Position		49,671
Rental income	Financial Performance		497,307

7. Disclosures

Disclosures for Finance Leases – Government Entity as Lessee

The government entity shall disclose the following information:

1. The carrying amount of each class of assets at the reporting date;
2. A reconciliation between the total of minimum lease payments at the reporting date and their present value;
3. In addition, the entity shall disclose the total of minimum lease payments at the reporting date and their present value for each of the following periods:
    - Not later than one year;
    - Later than one year and not later than five years;
    - Later than five years.
4. Contingent rents recognized as an expense for the period;
5. The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date; and
6. A general description of the lessee's material leasing arrangements including, but not limited to:
    - The basis on which contingent rent payments are determined;
    - The existence and terms of renewal or purchase options and escalation clauses;
    - Restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Disclosures for Operating Leases – Government Entity as Lessee

Government entities are required to make the following disclosures for operating leases:

1. The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
    - Not later than one year;
    - Later than one year and not later than five years;
    - Later than five years.
2. The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;
3. Lease and sublease payments recognized in the statement of financial performance for the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and
4. A general description of the lessee's significant leasing arrangements including, but not limited to:
    - The basis on which contingent rent payments are determined;
    - The existence and terms of renewal or purchase options and escalation clauses;
    - Restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Disclosures for Finance Leases - Government Entity as Lessor

Government entities are required to make the following disclosures for operating leases:

1. A reconciliation between the gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:
    - Not later than one year;
    - Later than one year and not later than five years;
    - Later than five years.

2. Unearned finance income;
3. The unguaranteed residual values accruing to the benefit of the lessor;
4. The accumulated allowance for uncollectible minimum lease payments receivable;
5. Contingent rents recognized in the statement of financial performance;
6. A general description of the lessor's material leasing arrangements.
7. Government entities shall disclose the gross investment less unearned income in new business added during the accounting period as an indicator of the growth of leasing activities, after deducting the values of cancelled leases.

Disclosures for Operating Leases - Government Entities as Lessor

Government entities are required to make the following disclosures for operating leases:

1. The future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
    - Not later than one year;
    - Later than one year and not later than five years;
    - Later than five years.
2. Total contingent rents recognized in the statement of financial performance;
3. A general description of the lessor's material leasing arrangements.

Policy 5 - Service Concession Arrangements: The Grantor

Table of Contents for Service Concession Arrangements Policy: The Grantor

1. Policy Objective

This policy aims to define service concession arrangements and the key components of such arrangements, then address the recognition and measurement criteria for assets and liabilities arising from these arrangements, and the principles for presentation and disclosure of related information in the financial statements of government entities in Ajman.

This policy primarily addresses the following topics:

1. Defining the key components of a service concession arrangement;

2. Recognition criteria and measurement bases for assets arising from these arrangements;
3. Recognition criteria for liabilities and their classification under the appropriate model (financial liability model and grant of a right to the operator model);
4. Measurement bases for the liability arising from the arrangements, according to the appropriate model;
5. Subsequent measurements related to the asset and liability;
6. And requirements and bases for presentation and disclosure of transactions arising from service concession arrangements.

2. Scope

This policy covers arrangements where an operator provides public services using a service concession asset on behalf of the government entity that grants the right to use this asset to the operator (a private entity or a third party) who uses the asset to provide public services. This government entity is referred to in this policy as the grantor.

Arrangements that do not involve the provision of public services and arrangements that include service and management elements, but where the control of the government entity (the grantor) over the asset is not established, are outside the scope of this policy.

This policy does not specify the accounting by the private entity or third party that uses the service concession asset under the control of the grantor. These private entities or third parties in a service concession arrangement contract are referred to in this policy as the operator.

3. Identifying Agreements that are Service Concession Arrangements

Service concession arrangements are contractual agreements between a grantor (government entity) and an operator (private entity or third party), whereby the operator operates the service concession assets to provide mandatory services on behalf of the grantor for a specified period. The operator is compensated for its services during the period covered by the service concession arrangement.

The following diagram summarizes the accounting for service concession arrangements:

Does the grantor control or regulate what services the operator must provide with the service concession asset, to whom it must provide them, and at what price?

(No) ↓

Outside the scope of the policy

↑ (No)

(Yes) ↓

Does the grantor control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the service concession arrangement? Or is the service concession asset used in the arrangement for its entire useful life?

↑ (No)

(Yes) ↓

Is the service concession asset constructed, developed, or acquired by the operator from a third party for the purpose of the service concession arrangement, or is the asset already held by the operator and becomes a service concession asset as part of the service concession arrangement?

(No) ↓

Is the service concession asset an existing asset of the grantor that it makes available to the operator for the purpose of the service concession arrangement?

(Yes) ↓

Within the scope of the policy

↑ (Yes)

```

**The following diagram presents the key components of a service concession arrangement:**

**Service Concession Asset**

It is the asset used to provide mandated services under a service concession arrangement.

**Operator**

It is the entity (private institution) that uses the service concession asset to provide services under the control of the grantor of the asset.
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Service Concession Arrangements

Mandated Services

These are the public services that the operator provides on behalf of the grantor, which fall within the authorizations provided by the grantor in the agreement.

Grantor

It is the government entity (grantor) that grants the right to use the service concession asset to the operator.

4. Accounting for Assets Related to Service Concession Arrangements

4.1. Recognition of Service Concession Arrangement Assets

The government entity (grantor) recognizes the asset provided by the operator or the upgrade made by the operator to an existing asset of the grantor as a service concession asset if:

1. The grantor controls or regulates:
    - ✓ The services the operator must provide with the asset;
    - ✓ To whom it must provide them;
    - ✓ And the price for providing these services.
2. And the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the term of the arrangement.

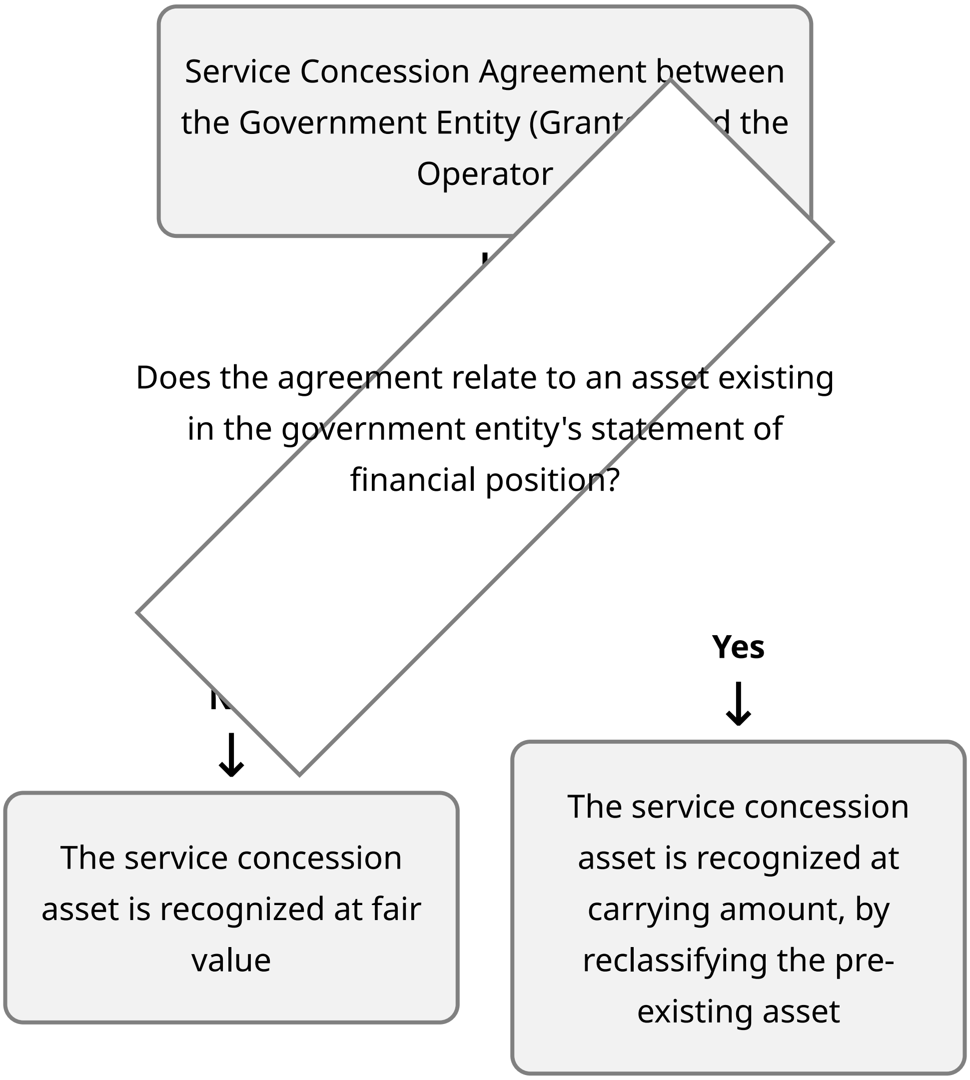
In addition to the conditions mentioned above, the government entity must verify that the asset related to the service concession arrangement meets the following basic conditions:

1. The future economic benefits or service potential associated with the asset will flow to the government entity. This is achieved through the government entity receiving the benefits arising from the asset and bearing the risks associated with it;
2. The cost of the asset or the fair value of the asset can be reliably measured.

4.2. Measurement of Assets Related to Service Concession Arrangements

The government entity (grantor) measures a service concession asset at its fair value upon initial recognition. Except for assets already existing in the government entity's (grantor's) statement of financial position that have met the conditions, which are reclassified at their carrying amount.

Regarding assets not previously included in the government entity's (grantor's) statement of financial position, the government entity assesses the fair value of the service concession asset based on the nature of the compensation it provides to the operator. The following flowchart summarizes the basis for valuing the asset related to a service concession arrangement at initial recognition:



4.3. Subsequent Measurement of Assets Related to Service Concession Arrangements

Following initial recognition, the government entity (grantor) adopts the following Ajman Government Accrual Accounting Policies, regarding depreciation, amortization, impairment, and derecognition, as appropriate:

1. Ajman Government Accrual Accounting Policy "Property, Plant, and Equipment";
2. Ajman Government Accrual Accounting Policy "Intangible Assets";
3. Ajman Government Accrual Accounting Policy "Impairment of Cash-Generating Assets";

4. Ajman Government Accrual Accounting Policy "Impairment of Non-Cash-Generating Assets".

Example: Initial Recognition of an Asset through Compensatory Payments by the Government Entity (Grantor)

The Department of Ports and Customs of Ajman entered into an agreement with a private institution where:

✓ The Department authorized the institution to construct a seaport;
✓ The agreement included a set of services (operation, development, and control of port management) that the institution must provide to port users;
✓ Rental prices were determined by agreement between the Department of Ports and Customs and the institution.
✓ The Department had to pay annual compensations to the institution for the duration of the agreement (10 years) as compensation for the constructed asset as follows:

Year	Amount (AED)
First Year	45,000,000
Second Year	47,250,000
Third Year	49,610,000
Fourth Year	52,090,000
Fifth Year	54,700,000
Sixth Year	57,430,000
Seventh Year	60,300,000
Eighth Year	63,320,000
Ninth Year	66,490,000
Tenth Year	69,810,000

Year	Amount (AED)
Total	**566,000,000**

✓ Upon the end of the agreement period, the agreement stipulates that all assets shall return to the Department.

For the purpose of this example, it is assumed that the fair value of a similar asset in other agreements, which only includes the construction of a similar seaport, is AED 400 million, and the borrowing rate is 5%.

Step One: Determine if the Agreement Represents a Service Concession Arrangement

1. Grantor - Government entity (Department of Ports and Customs of Ajman)
2. Operator - Private institution
3. Service Concession Asset - Seaport
4. Mandated Services - Construction, operation, development, and management of the asset for 10 years

Therefore, this agreement represents a service concession arrangement.

Step Two: Determine the Conditions for Asset Recognition and How to Measure It

Based on the agreement between the two parties, the Department determines/regulates the services that the operator should provide (seaport, construction, operation, development, and management), to whom it should provide them (other private institutions), and at what prices.

The asset agreed upon in the arrangement does not currently exist in the Department (as the operator will construct it). On this basis, the Department recognizes the asset at the present value of the payments related to the asset, unless it exceeds the fair value.

The fair value of the asset at initial recognition is the lower of:

Present value of compensatory payments – *AED 428,566,756

Fair value of a similar asset – AED 400,000,000

* This amount is calculated using the 'present value of an installment' formula and is calculated as follows:

- Where P represents the annual compensatory payments (as per the payment schedule).
- Where r represents the borrowing rate of 5%.
- Where n represents the number of payments (number of years of the agreement - 10 years).

$P/(1+r)^n$

On this basis, the accounting entry that the Department will make at the beginning of the agreement is as follows:

Description	Statement	Debit	Credit
Service Concession Asset – Buildings	Financial Position	400,000,000	
Service Concession Liability	Financial Position		400,000,000

Example: Recording a Service Concession Asset through Reclassification

At the beginning of 2010, the municipality constructed a waste recycling plant at a cost of AED 150 million (the plant's useful life is 30 years).

On this basis, on December 31, 2014, the municipality's statement of financial position shows the following data:

✓ Plant cost: AED 150,000,000
✓ Accumulated depreciation: AED 25,000,000: (150,000,000 / 30) x 5

On April 15, 2015, the municipality entered into an agreement with an operator to use and operate the plant for 10 years. On this date, the plant's useful life was estimated at 28 years, and the residual value of the asset at the end of its useful life was estimated at AED 300,000. On this basis, on the date of the agreement, the municipality makes the following entry:

Recording depreciation up to April 15, 2015 (3 months and 15 days)

Description	Statement	Debit	Credit
Depreciation - Waste Recycling Plant (150,000,000 / 30) x (3.5 / 12)	Financial Performance	7,291,667	
Accumulated Depreciation - Waste Recycling Plant	Financial Position		7,291,667

Therefore, the carrying amount of the asset on the date of its reclassification as a service concession asset is AED 117,708,333. Consequently, the municipality makes the following entry:

Description	Statement	Debit	Credit
Service Concession Asset - Waste Recycling Plant	Financial Position	117,708,333	
Property, Plant, and Equipment - Waste Recycling Plant	Financial Position		117,708,333

At the end of the financial period (December 31, 2015), the municipality records depreciation as follows:

Description	Statement	Debit	Credit
Depreciation of Service Concession Asset – Waste Recycling Plant	Financial Position	2,970,151	

((117,708,333 - 300,000) / 28) x (8.5 / 12)			
	Financial Performance		2,970,151

Accumulated Depreciation - Service Concession Asset - Waste Recycling Plant			

5. Recording Liabilities Related to Service Concession Arrangements

5.1. Financial Liability Model

The government entity (grantor) recognizes a financial liability when there is an unconditional obligation to pay cash or another financial asset to the operator in exchange for constructing, developing, acquiring, or improving a service concession asset.

The unconditional obligation to pay arises when the government entity guarantees to pay the operator the following:

1. Specified or determinable amounts; or
2. The shortfall, if any, between amounts received by the operator from users of the public services and any specified or determinable amounts (referred to in the first point), even if the payment is contingent.

When paying the specified amounts, the government entity allocates the payments between reducing the liability associated with the asset, and finance costs, which are recorded as expenses for the period.

Regarding payments related to compensating the service component paid by the government entity (grantor) over the period of the service concession arrangement, these amounts are recognized as expenses when incurred.

Example: Recognition of a Service Concession Arrangement Transaction – Financial Liability Model

At the beginning of 2013, the Department of Finance entered into a service concession arrangement with a private institution for a period of 5 years, where the arrangement requires the institution (operator) to operate an asset that will be purchased (asset cost AED 20 million - the asset's useful life is 8 years) to provide a service.

In return, the Department will make annual payments of AED 5,160,000 during the arrangement period, which includes an amount of 180,000 related to the service component of the service concession arrangement.

For the purpose of this example, it is assumed that the borrowing rate is 8%.

Step One – Classify the arrangement and determine the value of the asset and liability at initial recognition

1. According to the agreement, the operator will purchase the asset, therefore the Department must recognize the asset by determining its fair value.
2. Since the Department will make specified payments, from which the asset component can be separated from the service component, the asset is measured by determining the present value of the compensatory payments (related to the asset component), unless this amount exceeds the asset's fair value, in which case initial recognition is at fair value.
    - ✓ The present value of the compensatory payments (related to the asset component) is *AED 19,883,696;
    - ✓ Fair value is AED 20,000,000

* This amount is calculated using the 'present value of an annuity' formula and is calculated as follows:

$P [(1 - (1+r)^{-n}) / r]$

- Where P represents the annual compensatory payments related to the asset component – (5,160,000 - 180,000).
- Where r represents the borrowing rate of 8%.
- Where n represents the number of payments (number of years of the agreement - 5 years).

Therefore, the asset and liability will be initially recognized at a value of AED 19,883,696.

1. The liability is considered a 'financial liability', as the Department is required to pay specified amounts during the term of the agreement.

On this basis, at the beginning of 2013, the Department recognizes an asset and a liability related to the service concession arrangement upon the purchase of the asset by the operator as follows:

Description	Statement	Debit	Credit
Service Concession Asset	Financial Position	19,883,696	
Liability related to service concession arrangement	Financial Position		19,883,696

Based on the given data, the entries at the end of each financial period are as follows:

Description	Statement	Debit	Credit
Finance Cost - Expenses (8% × 20,000,000)	Financial Performance	1,590,696	
Expenses - Service component of the arrangement (12 × 15,000)	Financial Performance	180,000	
Reduction of Liability (amount determined through payment allocation)	Financial Position	3,389,304	
Cash - Bank Account (12 × 430,000)	Financial Position		5,160,000

5.2. Grant of a Right to the Operator Model

If the arrangement does not include an unconditional obligation on the government entity (grantor) to pay cash or another financial asset to the operator for constructing, developing, acquiring, or improving a service concession asset, but the government entity (grantor) grants the operator, through the arrangement, a right to earn revenue from other users or another revenue-generating asset, in this case, the government entity recognizes a liability, which represents deferred revenue arising from the exchange of the asset between the government entity (grantor) and the operator.

The government entity (grantor) recognizes the liability (deferred revenue) and the resulting asset from the service concession arrangement as arising from an exchange transaction, where the liability (deferred revenue) is recognized by valuing the asset related to the service concession arrangement arising from this transaction. The diagram below summarizes the exchange process and the elements related to this transaction.

The government entity grants this right for the period covered by the service concession arrangement. On this basis, at initial recognition, the government entity records an asset against a liability (deferred revenue), and the revenue resulting from the asset recognition process is recorded by reducing the value of the liability (deferred revenue) based on the economic substance of the service concession arrangement.

Example: Recognition of a Service Concession Arrangement Transaction – Grant of a Right to the Operator Model

The Department of Ports and Customs (Grantor) entered into a service concession arrangement with an institution, where the arrangement requires the institution (Operator) to construct a port for a period of 30 years, and then transfer the port (operational responsibility) to the Grantor (the construction of the port by the Operator was completed on June 30, 2015, and its useful life on that date was estimated at 50 years).

In addition, the Department agreed to grant the Operator the right to collect revenues generated from the port for its own account during the arrangement period as compensation for the costs of constructing the asset and the service costs related to operating the asset.

On the date of completion of construction, the total costs were estimated at AED 2 billion. The team from the Port responsible for monitoring the construction works, including verifying all costs related to the construction process, confirmed this.

Upon commencement of operations, the Operator achieved the following revenues/operating costs:

Year	Total Revenue Realized	Service Costs related to Port Operation	Net Revenue
2015 (6 months)	AED 330 million	AED 290 million	AED 40 million
2016	AED 740 million	AED 676 million	AED 64 million
2017	AED 790 million	AED 720 million	AED 70 million
2018	AED 810 million	AED 738 million	AED 72 million
2019	AED 920 million	AED 850 million	AED 70 million
2020	AED 925 million	AED 853 million	AED 72 million

Step One - Classify the arrangement and determine the value of the asset and liability at initial recognition

1. According to the agreement, the Operator will construct the asset, therefore the Department must recognize the asset by determining its fair value.
2. Since the Port will not make specified payments, but rather has granted the Operator the right to collect revenues that will arise from operating the asset, as compensation for the cost of constructing the asset and the service costs related to the asset, on this basis the fair value of the asset is determined by considering it as resulting from an exchange transaction equal to the fair value of the port, which are the costs verified by the works monitoring team, amounting to AED 2 billion.
3. This arrangement falls under the Grant of a Right to the Operator Model, as the Port is not required to pay specified amounts, but rather has granted the Operator the right to collect revenues during the agreement term. The liability (deferred revenue) will be recorded at the amount arising from the exchange transaction (the fair value of the asset

received), and the liability will be reduced and revenues recorded in a manner consistent with the revenues collected by the Operator.

On this basis, on June 30, 2015, the Department's financial statements show the following balances:

✓ Service concession asset valued at AED 2 billion
✓ Liability related to the service concession arrangement (deferred revenue) of the same value, AED 2 billion

Step Two – Subsequent measurement of the asset and liability

At the end of 2015, the Department recognizes the following entries:

1- Asset Depreciation

Description	Statement	Debit	Credit
Depreciation (6 months) (2,000,000,000 / 50) x (6 / 12)	Financial Performance	20,000,000	
Accumulated Depreciation - Service Concession Asset	Financial Position		20,000,000

2- Reduction of liability and recognition of revenues from the exchange transaction

The Department reduces the liability annually in a way that reflects the substance of the transaction, where this amount (deferred revenue) is reduced based on the value of the revenue arising from the right granted to the operator, which can be considered as compensation for the construction of the asset:

Based on the data in the "Revenues/Operating Costs" table, at the end of each financial period, the liability is reduced as follows:

Description	Statement	Debit	Credit
Liability (Deferred Revenue)	Financial Position	40,000,000	

Description	Statement	Debit	Credit
Revenue	Financial Performance		40,000,000

At the end of 2016, the Department recognizes the following entries:

1- Asset Depreciation

Description	Statement	Debit	Credit
Depreciation (2,000,000,000 / 50)	Financial Performance	40,000,000	
Accumulated Depreciation - Service Concession Asset	Financial Position		40,000,000

2- Reduction of liability and recognition of revenues from the exchange transaction

Description	Statement	Debit	Credit
Liability (Deferred Revenue)	Financial Position	64,000,000	
Revenue	Financial Performance		64,000,000

During the remainder of the period covered by the arrangement, the Department will continue to reduce the value of the liability until it is zeroed out (based on the net revenue generated from the port's operation). The Department will also continue to depreciate the port over its 50-year useful life (consistent with the requirements of the "Property, Plant, and Equipment" policy).

5.2.1. Bifurcation of the Arrangement

If the government entity (grantor) pays for the construction, development, acquisition, or improvement of a service concession asset partly by incurring a financial liability and partly by granting a right to the operator, it is necessary to account for each part of the total liability separately. The amount initially recognized for the total liability should be the same as the amount determined for the value of the service concession asset.

6. Other Liabilities, Commitments, Contingent Liabilities, and Contingent Assets

The government entity (grantor) shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the "Provisions, Contingent Liabilities and Contingent Assets" policy and the "Financial Instruments" policy.

7. Other Revenue

The government entity (grantor) shall account for revenue arising from a service concession arrangement, other than that discussed in the Grant of a Right model and the resulting deferred revenue, in accordance with the "Revenue from Exchange Transactions" policy.

8. Disclosures

The government entity (grantor) shall disclose the following information relating to service concession arrangements in each financial reporting period:

1. A description of the arrangement.
2. Significant terms of the arrangements that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis on which re-pricing or re-negotiation is determined).
3. The nature and extent of the following (e.g., quantity, time period, or amount, as appropriate):
    - ✓ Rights to use specified assets;
    - ✓ Rights to expect the operator to provide specified services in relation to the service concession arrangement;
    - ✓ Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;
    - ✓ Rights to receive specified assets at the end of the service concession arrangement;
    - ✓ Renewal and termination options;

✓ Other rights and obligations (e.g., major overhaul of service concession assets);
✓ Obligations to grant the operator access to service concession assets or other revenue-generating assets.

4. Changes in the arrangement that occurred during the reporting period.

The government entity shall provide the disclosures required above individually for each significant service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications, or water treatment services). The government entity shall also disclose service concession assets by class of asset (e.g., roads, bridges, or buildings).

Policy 6 – Agriculture

Table of Contents for Agriculture Policy

1. Policy Objective

This policy aims to define biological assets and agricultural produce, in addition to determining the recognition and measurement criteria for transactions related to agricultural activity, and the basis for presentation and disclosure of related information within the financial statements of government entities in Ajman.

This policy addresses the following topics related to agricultural activity:

1. The basis for recognizing biological assets and agricultural produce resulting from agricultural activity;
2. The basis for measuring a biological asset or agricultural produce;
3. Addressing gains and losses arising from the initial recognition of a biological asset and agricultural produce and how to account for them;

4. Presenting the most important information that must be disclosed within the financial statements.

2. Scope

✓ This policy applies to all government entities concerned with agricultural activity that prepare and present financial statements based on the Ajman Government's accrual basis accounting policies, where it covers:

1. Biological assets (except for bearer plants which are within the scope of the "Property, Plant, and Equipment" policy);
2. And agricultural produce at the point of harvest.

This policy does not apply to land related to agricultural activity and intangible assets related to agricultural activity, as they are treated based on other policies (e.g., the "Property, Plant, and Equipment" policy, the "Investment Property" policy, and the "Intangible Assets" policy).

This policy does not apply to biological assets held to provide or supply services. Biological assets may be used in many activities carried out by government entities. When biological assets are used for research, education, transport, entertainment, recreation, customs control, or in any other activities that are not agricultural activities as defined in this policy, those biological assets are not accounted for in accordance with this policy (e.g., horses used for transport, or dogs used for control and guarding).

The following are not considered bearer plants:

1. Plants cultivated to be harvested as agricultural produce, for example, trees grown for use as timber;
2. Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the government entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated for their fruit and their lumber);
3. Annual crops (for example, maize and wheat).

Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture. Within this diversity, there are common features:

1. Capability to change: Living animals and plants are capable of biological transformation;

2. Management of change: Management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing) is not agricultural activity;
3. Measurement of change: The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation is measured and monitored as a routine management function.

Biological transformation results in the following types of outcomes:

1. Asset changes through:
   ✓ Growth (an increase in quantity or improvement in quality of an animal or plant);
   ✓ Degeneration (a decrease in the quantity or deterioration in quality of an animal or plant);
   ✓ Procreation (creation of additional living animals or plants).
2. Production of agricultural produce such as milk and dates.

Example: Biological Transformation

The following are examples of biological transformation in the context of livestock:

✓ Calves transforming into cows (growth);
✓ Cows producing milk (production);
✓ Cattle slaughtered for meat (production);
✓ Birth of camels (procreation);
✓ Loss of a group of cows due to disease (degeneration).

Example: Scope of the Policy: Biological assets, then produce, then agricultural products

A government entity harvests sugarcane from the plant and processes it into sugar. While this conversion or processing of harvested sugarcane into sugar might seem a logical and natural extension of agricultural activity, the conversion or processing is not considered part of biological transformation. Therefore, the processing of sugar after harvesting sugarcane is not within the definition of agricultural activity as in this policy.

The following table provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Within the scope of this policy		**Outside the scope of this policy**
Biological Assets	**Agricultural Produce**	**Products that are the result of processing after harvest**
Sheep	Wool	Yarn, carpet
Trees in a plantation forest	Felled trees	Logs, lumber
Plants	Cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Fruit trees	Picked fruit	Processed fruit

3. Recognition

The government entity recognizes a biological asset or agricultural produce when:

1. The government entity controls the asset as a result of past events (e.g., legal ownership or branding/marking of the cattle on acquisition or birth);
2. It is probable that future economic benefits or service potential associated with the asset will flow to the government entity;
3. The fair value or cost of the asset can be measured reliably (and the fair value of the asset is based on its present location and condition).

Example: Recognition of a Biological Asset

> The Royal Court has a pregnant camel used for agricultural activities, which is considered a biological asset according to the definition of a biological asset in this policy. Its newborn calf will also be considered a biological asset but will not be recognized as a separate asset until the recognition criteria listed above are met. Since control is clear and the fair value of the asset can be reliably measured through its market, it will only be necessary to determine when it is probable that future economic benefits associated with the asset will flow to the Royal Court. Therefore, biological assets are recognized upon confirmation of a successful birth and the health of the newborn.

4. Measurement

The government entity shall measure a biological asset on initial recognition and at the reporting date at its fair value less costs to sell, as long as fair value can be measured reliably. If fair value cannot be measured reliably, it shall be measured at cost less accumulated depreciation and any accumulated impairment losses.

If an active market exists for a biological asset (or agricultural produce) in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If the government entity has access to different active markets, it shall use the most relevant one.

Fair value takes into account the current location and condition of the asset. Therefore, transport costs affect the measurement of fair value. For example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle from the farm to that market.

> **Example: Determining the Fair Value of an Asset**
>
> A government entity purchased cattle at an auction for AED 100,000 in May 2014. The costs of transporting the cattle to the entity's farm were AED 1,000. The entity would have to incur similar transport costs if it wanted to sell the cattle at the auction, in addition to auctioneer's fees of 2% of the sales price. Therefore, the fair value of the cattle less costs to sell is AED 97,000 (100,000 – 2,000 – 1,000).

> At the financial reporting date, the fair value of the cattle (taking into account its location and condition) has increased to AED 110,000 (i.e., AED 110,000 is the market price net of transport costs to the market). Thus, the cattle must be measured in the municipality's financial statements at a price of AED 107,800 (which is AED 110,000 less auctioneer's fees of AED 2,200, at 2% of the sales price). The estimated costs to transport the cattle to the auction are not deducted because transport costs were already taken into account in determining the fair value.

If an active market does not exist, the government entity uses one or more of the following, when available, in determining fair value:

1. The most recent market transaction price, provided that there has not been a significant change in economic circumstances between that transaction date and the reporting date;
2. Market prices for similar assets with an adjustment to reflect differences;
3. Sector benchmarks (such as the value of cattle expressed per kilogram of meat).

In some cases, information sources may suggest different conclusions as to the fair value of a biological asset or agricultural produce. The government entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.

In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, the government entity uses the present value of expected net cash flows from the asset. The objective of a present value calculation is to determine the fair value of a biological asset in its present location and condition. The government entity considers this in determining an appropriate market-determined current discount rate to be used in estimating expected net cash flows.

The present value of expected net cash flows is determined by including the net cash flows that market participants would expect the asset to generate in its most relevant market. The cash flows do not include financing the assets, taxation, or re-establishing biological assets after harvest.

Cost may sometimes approximate fair value, particularly when:

1. Little biological transformation has taken place since initial cost was incurred (for example, for fruit tree seedlings planted immediately prior to a reporting date); or
2. The impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).

4.1. Gains and Losses

A gain or loss arising on initial recognition of agricultural produce at fair value (less costs to sell) shall be included in the statement of financial performance for the period in which it arises. A gain or loss may also arise on initial recognition of agricultural produce as a result of harvesting.

4.2. Inability to Measure Fair Value Reliably

A government entity must measure the fair value of a biological asset reliably. However, in some cases, at initial recognition, market-determined prices or values are not available for the asset, and alternative estimates of the asset's fair value are determined to be clearly unreliable. Accordingly, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Although a reliable measurement of fair value may not be available at the point of initial recognition, it may become available later (for example, if an active market is opened). In such circumstances, biological assets are measured at their fair value less costs to sell from the point at which a reliable measure of fair value becomes available.

A government entity that has previously measured a biological asset at its fair value less costs to sell is not permitted to revert to another measurement model (such as cost), as it must continue to measure the biological asset at its fair value less costs to sell until disposal of that asset.

In all cases, government entities shall measure agricultural produce at the point of harvest at its fair value less costs to sell, as it is presumed that fair value can be measured reliably.

When determining cost, accumulated depreciation, and accumulated impairment losses, the government entity should consider the

"Impairment of Cash-Generating Assets" policy and the "Impairment of Non-Cash-Generating Assets" policy.

5. Disclosures

The government entity shall disclose the following information in each financial reporting period:

1. The nature of its activities involving each group of its biological assets;
2. Non-financial measures or estimates of the physical quantities of:
    - ✓ Each group of the government entity’s biological assets at the end of the period;
    - ✓ Output of agricultural produce during the period.
3. The methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets shall also be disclosed.
4. The fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.
5. The amount of commitments for the development or acquisition of biological assets;

In addition, the government entity shall provide a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include the following:

1. The gain or loss arising from changes in fair value less costs to sell shall be disclosed separately for consumable biological assets and bearer biological assets;
2. Increases resulting from purchases;
3. Increases resulting from assets acquired through a non-exchange transaction;
4. Decreases resulting from sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale);
5. Decreases resulting from distributions for no or nominal consideration;
6. 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 (i.e., AED);
7. Decreases resulting from harvest;
8. Other changes.

If the government entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, it shall disclose the following for such biological assets:

1. A description of the biological assets;

2. An explanation of why fair value cannot be measured reliably;
3. If possible, the range of estimates within which fair value is highly likely to lie;
4. The depreciation method used;
5. The useful lives or the depreciation rates used;
6. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

When the government entity, during the financial period, measures assets at their cost (less any accumulated depreciation and any accumulated impairment losses), it shall disclose any gain or loss recognized on disposal of such biological assets. The reconciliation of the amounts related to these biological assets shall also be disclosed separately. In addition, the reconciliation shall include the following amounts included in the statement of financial performance related to those biological assets:

1. Impairment losses;
2. Reversals of impairment losses;
3. Depreciation.

If the fair value of biological assets previously measured at their cost becomes reliably measurable during the current period, the government entity shall disclose the following for those biological assets:

1. A description of the biological assets;
2. An explanation of why fair value has become reliably measurable;
3. The effect of the change.

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## Policy 7 - Impairment of Cash-Generating Assets

## Table of Contents for the Policy on Impairment of Cash-Generating Assets
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1. Policy Objective

The objective of this policy is to prescribe the procedures to be applied to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognized. This policy also specifies when a government entity should reverse an impairment loss and outlines the necessary disclosures.

This policy primarily addresses the following topics:

1. Identifying assets that may be impaired;
2. Identifying cash-generating assets;
3. The basis for measuring the recoverable amount and the various methods used;
4. The method of recognition and measurement of an impairment loss;
5. Addressing cases of reversing a loss and how to recognize it;
6. Cash-generating units;
7. Presentation and disclosure requirements related to the impairment of cash-generating assets.

2. Scope

This policy covers all aspects of accounting for the impairment of cash-generating assets, except for the following assets:

a. Inventories (the "Inventories" policy);

b. Financial assets that are within the scope of the accounting standard on Financial Instruments (the "Financial Instruments" policy);

c. Assets arising from employee benefits (the "Employee Benefits" policy);

d. Biological assets related to agricultural activity measured at fair value less costs to sell (the "Agriculture" policy).

3. Identifying a Cash-Generating Asset

Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by the government entity, where holding an asset to generate a "commercial return" indicates that the government entity intends to:

1. generate positive cash inflows from that asset (or from the cash-generating unit of which the asset is a part - the meaning of a cash-generating unit will be discussed later in this policy); and
2. earn a commercial return that reflects the risks associated with holding the asset.

3.1. Identifying the Cash-Generating Unit to which an Asset Belongs

It may not be possible to assess an individual asset for impairment because, in some cases, an asset generates cash flows in conjunction with other assets. Therefore, assets are grouped, and a cash-generating unit is identified as the smallest group of assets that includes the asset and that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (such as a plant or a division). This group is known as a cash-generating unit.

Identifying a cash-generating unit requires professional judgment. When determining whether cash inflows from assets or cash-generating units are largely independent of the cash inflows from other assets or other cash-generating units, several factors must be considered, including how management monitors the operations and makes decisions about continuing or disposing of the asset and/or operation. In all cases, identifying independent cash inflows is the key point to be considered.

4. Steps for Impairment Assessment

Step 1: Has an event occurred that indicates the cash-generating unit, composed of a group of tangible assets, may be impaired?

> ✓ When assessing whether there is any indication that a cash-generating unit may be impaired, the government entity considers both internal and external indicators of impairment.
>
> ✓ If the answer to the above question is "No," then no further action is required at this time other than documentation. If the answer to the question is "Yes," proceed to Step 2.

Step 2: Do previous calculations show that the recoverable amount of the cash-generating unit is significantly greater than its carrying amount, and have no events occurred that would eliminate that difference?

> ✓ Materiality should be considered. If a previous assessment showed that the recoverable amount of the cash-generating unit was significantly greater than its carrying amount, the government entity can avoid re-assessing its recoverable amount if no events have occurred that would eliminate that difference. Similarly, a previous analysis may show that the recoverable amount of the cash-generating unit is not sensitive to one (or more) of the internal or external indicators.
>
> ✓ If the answer to the question in Step 2 is "Yes," then no further action is required at this time other than documentation. If the answer is "No," proceed to Step 3.

Step 3: Determine the recoverable amount of the cash-generating unit (i.e., fair value less costs to sell or value in use, whichever is higher). Is

the recoverable amount higher than the carrying amount of the cash-generating unit?

✓ If the answer is "Yes," there is no impairment. If the answer is "No," the government entity must calculate an impairment loss as the difference between the carrying amount and the recoverable amount and proceed to Step 4.

Step 4: If impairment losses are identified and approved, the impairment losses must be recorded.

✓ If the recoverable amount is less than the carrying amount, the carrying amount should be reduced to the recoverable amount. This reduction is an impairment loss and must be recorded in the statement of financial performance.

✓ The future period depreciation for depreciable assets should be adjusted according to their type, based on the "new" carrying amount of the asset and its remaining useful life.

✓ The carrying amount of the cash-generating unit must be determined in a manner consistent with how the recoverable amount of the cash-generating unit was determined.

5. Indicators of Impairment

At each reporting date, the government entity must assess whether there are any indications that an asset may be impaired. If any such indications exist, the government entity must estimate the recoverable amount of the asset. The timing and steps of the impairment test to be performed during the financial period vary depending on the nature of the asset under review.

An asset is impaired when its carrying amount exceeds its recoverable amount. If there are any signs of impairment, the government entity must make a formal estimate of the recoverable amount. The government entity is not required to make a formal estimate of the recoverable amount if there are no indications of an impairment loss.

When assessing whether there is an indication that an asset may be impaired, the government entity must consider, as a minimum, the following indicators:

Information from external sources

1. A decline in the asset's market value during the period significantly more than would be expected as a result of the passage of time or normal use;
2. Significant changes with an adverse effect on the government entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the government entity operates or in the market to which the asset is dedicated;
3. Increases in market interest rates or other market rates of return on investments during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially.

Information from internal sources

1. Evidence is available of obsolescence or physical damage of an asset;
2. Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used;

1. Plans to discontinue the use of the asset or to dispose of it; or a decision to halt construction of the asset before it is complete or ready for use.
2. Evidence is available of a decline in the economic performance of an asset.

If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortization) method, or the residual value of the asset needs to be reviewed and adjusted in accordance with the policy applicable to the asset, even if no impairment loss is recognized for the asset.

The government entity must conduct an annual impairment test for an intangible asset with an indefinite useful life, regardless of whether there are any indications of impairment.

6. Measuring Recoverable Amount

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If, when calculating the recoverable amount, either fair value less costs to sell or value in use is higher than the asset's carrying amount, the asset is not impaired. Therefore, it is not always necessary to determine both values (i.e., fair value less costs to sell and value in use, as long as either amount exceeds the carrying amount).

6.1. Fair Value less Costs to Sell

If it is necessary to determine fair value less costs to sell, one of the following methods should be used (listed in order of preference):

1. If there is a binding sale agreement in an arm's length transaction, the price under that agreement less costs of disposal is the fair value less costs to sell;
2. If there is no binding sale agreement but there is an active market for that type of asset, fair value less costs to sell is the market price less the costs of disposal. The market price means the current bid price if available, otherwise, the price is determined from the last transaction that occurred under similar economic conditions;
3. If there is no binding sale agreement or active market, fair value less costs to sell is the best estimate of the asset's selling price less the costs of disposal. An estimate can be obtained, for example, from external appraisers or by using the market price of a similar asset for which an active market exists;
4. If there is no basis for making a reliable estimate of fair value less costs to sell, value in use is used as the asset's recoverable amount.

Example - Determining Fair Value less Costs to Sell

The Department of Lands and Real Estate Regulation owns a building used to generate a commercial return. The department purchased the building at a cost of AED 2,500,000 on September 30, 2000, and its useful life at that date was estimated to be 30 years. The entity intends to use the asset for this purpose until the end of its useful life.

On June 30, 2015, the department contacted the team managing the building to inform them of a potential cessation of the building's use, as there is a plan to dispose of the asset at the beginning of January 2016.

The department gathered the following information to determine the fair value less costs to sell:

✓ Based on available information from the real estate market in the United Arab Emirates, the selling price of a building with similar specifications in the same area is estimated at AED 1,300,000;

✓ To complete the sale, the government department will be required to issue a safety compliance certificate, and the inspection and certification process will cost AED 15,000;

✓ The government department will clean the building and perform minor maintenance to prepare the building for sale at a cost of AED 10,000;

✓ The sale of the building will result in the transfer of some employees working there and the dismissal of others, which will incur employee-related costs of AED 60,000.

On this basis, the government department determines the fair value less costs to sell as follows:

Market value of the asset	AED 1,300,000
Inspection and safety certificate costs	(AED 15,000)
Cleaning and maintenance costs	(AED 10,000)
Employee-related costs	-
Fair value less costs to sell of the building	AED 1,275,000

Note: The department does not consider employee-related costs (end-of-service and restructuring-related costs) as incremental costs of disposing of the building and therefore does not include them in the calculation of the fair value less costs to sell of the building.

6.2. Value in Use

To measure value in use, estimates of the cash inflows and outflows arising from the continued use of the asset by the government entity, in addition to the net proceeds from its final disposal, are determined and discounted using an appropriate discount rate.

The following elements should be reflected in the calculation of an asset's value in use:

1. Costs associated with the day-to-day servicing of the asset;
2. Cash flows necessary to prepare the asset for use (in relation to assets under construction or development projects that are not yet complete);
3. Future overheads that can be allocated on a reasonable and consistent basis to the use of the asset.

6.2.1. Discount Rate

The discount of estimated future cash flows should be a pre-tax rate (as applicable) that reflects:

1. current market assessments of the time value of money (represented by the current risk-free interest rate);
2. the specific risks for which the future cash flow estimates have not been adjusted.

The expected market rate of return is the return that investors would demand if they were to choose an investment that would generate cash flows of amounts, timing, and risk profile equivalent to those that the government entity expects to derive from the asset or the cash-generating unit under review. The rate should also be independent of the asset's financing method and estimated from current market transactions for similar assets, or from the weighted average cost of capital (WACC) of a listed entity with a single asset or portfolio of assets similar in terms of service potential and risk to the asset under review. The discount rate used to measure an asset's value in use should not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting the effect of some assumptions.

When a rate specific to the asset is not directly available from the market, the government entity should use surrogates to estimate the appropriate discount rate, taking into account that it reflects the time value of money over the life of the asset, as well as country risk, currency risk, price risk, and cash flow risk.

6.2.2. Basis for Estimates of Future Cash Flows

When measuring value in use, the government entity should ensure the following:

1. Cash flow projections shall be based on reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the remaining useful life of the asset, with greater weight and importance given to external evidence;
2. Cash flow projections shall be based on the most recent financial budgets/forecasts approved by the relevant management, excluding any estimated cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts should cover a maximum period of five years, unless a longer period can be justified; and
3. Cash flow projections beyond the period covered by the most recent budgets/forecasts shall be estimated by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. The growth rate used should not exceed the long-term average growth rate for the products, industries, or country in which the government entity operates, or for the market in which the asset is

used, unless a higher rate can be justified. Sometimes, if appropriate, the growth rate may be zero or negative.

The management of the government entity should assess the reasonableness of the assumptions on which its cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management should ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes and represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

6.2.3. Composition of Estimates of Future Cash Flows

Estimates of future cash flows shall include:

1. projections of cash inflows from the continuing use of the asset;
2. projections of cash outflows that are incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use and future overheads related to the asset), such that these expected cash flows are directly attributable to the asset or can be allocated on a reasonable and consistent basis to the asset; and
3. net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows shall not include:

1. cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset being reviewed;
2. cash outflows related to obligations that have been recognized as liabilities in the financial statements;
3. cash inflows or outflows that are expected to arise from future restructurings that are not yet committed;
4. cash flows related to improving or enhancing the asset's performance;
5. cash inflows or outflows from financing activities;

6. tax receipts or payments (as applicable and as required).

The estimation of future cash flows is based on the asset's current condition. Therefore, the value in use of the asset concerned does not reflect any of the following:

1. future cash outflows or related cost savings (for example, reductions in staff costs) or benefits that are expected to arise from a future restructuring to which the government entity is not yet committed; or
2. cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such cash outflows.

7. Recognizing and Measuring an Impairment Loss for an Individual Asset

If an asset's recoverable amount is less than its carrying amount, the carrying amount of the asset is reduced by the difference, and the reduction is recognized as an impairment loss directly in the statement of financial performance.

Example - Recognizing Impairment Losses

The Tourism Development Department owns a building used for the purpose of generating a commercial return.

On September 30, 2009, the carrying amount of the building was AED 22,500,000 (purchase date March 31, 2002, cost at purchase AED 30 million, estimated useful life at purchase date 30 years). The global economic crisis at that time affected real estate prices, which represented a clear indicator of the building's impairment, thus necessitating an estimation of its recoverable amount.

The fair value less costs to sell was estimated at AED 18,000,000, while the value in use was estimated at AED 17,500,000.

At that date, the remaining useful life of the building was 22.5 years.

Step One – Determining the Recoverable Amount

The recoverable amount is considered the higher of:

- ✓ Fair value less costs to sell: which is AED 18,000,000;
- ✓ Value in use: which is AED 17,500,000.

Accordingly, the recoverable amount of the asset is AED 18,000,000.

Step Two - Recognizing and Measuring the Impairment of the Asset

If the carrying amount of the asset is higher than its recoverable amount, the Tourism Development Department must reduce the value of the asset by the difference.

Therefore, the impairment in the value of the building is 22,500,000 – 18,000,000 = AED 4,500,000.

On this basis, the Tourism Development Department records the following entry:

Description	Debit	Credit
Expenses/Impairment Losses	4,500,000	
Accumulated Impairment Provision		4,500,000

Note: In subsequent periods, the department uses the reduced value of the asset to calculate depreciation over the remaining useful life of the asset (the building). The depreciation for the period from October 1, 2009, to December 31, 2009, is recorded as follows:

Description	Debit	Credit
Expenses/Building Depreciation (18,000,000 / 22.5) x (3 / 12)	200,000	
Accumulated Depreciation		200,000

8. Reversing an Impairment Loss

At each reporting date, the government entity shall assess whether there is any indication that an impairment loss recognized in prior periods for an asset or a cash-generating unit may no longer exist or may have decreased. If any such indication exists, the government entity shall estimate the recoverable amount of that asset or cash-generating unit.

A government entity shall reverse an impairment loss recognized in prior periods for an asset or a cash-generating unit if, and only if, there has been a positive change in the estimates used in the prior period to determine the asset's recoverable amount. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. This increase is a reversal of a previously recognized impairment loss, provided that the carrying amount does not exceed the carrying amount that would have been recorded (net of depreciation or amortization) had no impairment loss been recognized in prior periods.

Information from external sources

1. The market value of the asset or cash-generating unit has increased significantly during the period;
2. Significant changes with a positive or favorable effect for the government entity have occurred during the period, or will occur in the near future, in the technological, market, economic, or legal environment in which the government entity operates or in the market to which the asset or cash-generating unit is dedicated;
3. A decrease in market interest rates or other market rates of return on investments during the period, and these decreases are likely to affect the discount rate used in calculating the value in use of the asset or unit and to increase the recoverable amount of the asset or unit materially.

Information from internal sources

1. Significant changes with a positive effect for the government entity have occurred during the period, or are expected to occur in the near future, affecting the extent or manner in which the asset or cash-generating unit is used or is expected to be used. These changes include costs incurred during the period to enhance or improve the performance of the asset or cash-generating unit or to restructure the operation to which the asset or cash-generating unit belongs.

2. A decision to resume construction of an asset that was previously halted before it was complete or ready for use;
3. Evidence is available from internally prepared reports that indicates that the economic performance of the asset or cash-generating unit is, or will be, better than expected.

The reversal of an impairment loss is recognized in the statement of financial performance for the period as soon as it is discovered.

The reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, pro rata with the carrying amounts of those assets, and the reversal of an impairment loss for individual assets shall be recognized. However, no part of a reversed impairment loss should be allocated to a non-cash-generating asset, even if that asset contributes to the service potential of the cash-generating unit.

Example - Recognizing Reversal of Impairment Losses

Continuing the previous example, on September 30, 2014, a clear improvement in real estate prices emerged, with renewed demand for properties in the area where the building is located, which represented a clear indicator for reversing the building's impairment.

The fair value less costs to sell was estimated at AED 19,000,000.

The carrying amount of the building at this date was AED 14,000,000, which represents the AED 18,000,000 carrying amount on September 30, 2009, minus AED 4,000,000 for 5 years of depreciation. The remaining useful life of the building is 17.5 years.

On this basis, the Finance Department assesses the impairment loss that can be reversed:

If the carrying amount of the asset is less than its recoverable amount (fair value less costs to sell), the Finance Department must reverse the asset's impairment and increase the carrying amount by the difference.

However, the increased carrying amount should not exceed the carrying amount of the asset had no impairment been previously recognized.

Carrying amount of the asset had no impairment been previously recognized (carrying amount before impairment on September 30, 2009, minus 5 years of depreciation cost):

22,500,000 – 5,000,000 = AED 17,500,000

Therefore, the reversal of the impairment in the building's value is:

17,500,000 – 14,000,000 = AED 3,500,000.

On this basis, the Finance Department records the following entry:

Description	Debit	Credit
Accumulated Impairment Provision	3,500,000	
Gain from Reversal of Impairment		3,500,000

In subsequent periods, the Finance Department uses the new carrying amount of the asset to calculate depreciation over the remaining useful life of the asset (the building).

The depreciation for the period from October 1, 2014, to December 31, 2014, is recorded as follows:

Description	Debit	Credit
Expenses/Building Depreciation (17,500,000 / 17.5) x (3 / 12)	250,000	
Accumulated Depreciation		250,000

Example - How to allocate an impairment loss to the assets of a cash-generating unit?

Ajman Municipality has an indication that one of its cash-generating units may be impaired. The municipality's management conducted an impairment test and estimated that the recoverable amount of the cash-generating unit is AED 700. Below are further details about the cash-generating unit:

Assets	Carrying Amount	Fair Value less Costs to Sell	Value in Use
Property, Plant, and Equipment:			

Assets	Carrying Amount	Fair Value less Costs to Sell	Value in Use
Buildings	500	550	500
Machinery	90	50	50
Intangible Assets:			
Intangible Assets	250	None	150
Total for Cash-Generating Unit	**840**	**600**	**700**

The total recoverable amount of the cash-generating unit is AED 700 (the higher of value in use and fair value less costs to sell).

Impairment to be allocated: AED 140 (representing the difference between the carrying amount and the recoverable amount). The impairment is allocated as follows:

Assets	Carrying Amount (A)	Recoverable Amount (Value in Use) (B)	Allocated Impairment (C)=(A)-(B)	Adjusted Carrying Amount based on Allocation (D)=(A)+(C)
Buildings	500	500	---	---
Machinery	90	50	(40)	50
Intangible Assets	250	150	(100)	150
Total for Cash-Generating Unit	**840**	**700**	**(140)**	

As shown above, the impairment loss is allocated proportionally based on the carrying amount of each asset in the unit.

9. Re-designation of Assets

The re-designation of assets from cash-generating assets to non-cash-generating assets, or vice versa, occurs only if there is clear evidence that this re-designation is appropriate. The re-designation event itself does not require an impairment test or the reversal of an impairment loss. Instead, the need for an impairment test or the reversal of an impairment loss arises from the indicators that apply to the asset after its re-designation.

10. Disclosures

The government entity shall disclose the methods used to distinguish between cash-generating assets and non-cash-generating assets.

The government entity shall disclose the following for each class of assets:

1. Expenses resulting from impairment losses recognized in the statement of financial performance, with identification of the line items affected by the impairment.
2. The amounts relating to reversals of impairment losses recognized in the statement of financial performance, with identification of the line items affected by the reversal of impairment losses.

When an impairment loss recognized or reversed for an individual asset or a cash-generating unit during the period is material to the financial statements, the government entity shall disclose the following:

1. The events and circumstances that led to the recognition or reversal of the impairment loss;
2. The amount of the impairment loss recognized or reversed;
3. For a cash-generating asset:
    - ✓ The nature of the asset; and
    - ✓ The segment to which the asset belongs.
4. For a cash-generating unit:
    - ✓ A description of the cash-generating unit (e.g., a production line, a plant, a service line, a geographical area, or a reportable segment);

✓ The amount of the impairment loss recognized or reversed for each class of asset or segment (where applicable).

✓ The entity must disclose if there has been a change in the way assets are aggregated to identify the cash-generating unit since the previous estimate of the cash-generating unit's recoverable amount. The government entity must describe the current and previous methods in which assets were aggregated and the reasons for changing the method of identifying the cash-generating unit;

5. Whether the recoverable amount of the asset represents fair value less costs to sell or its value in use.
6. The basis used to determine fair value less costs to sell if the recoverable amount represents fair value less costs to sell (e.g., whether it was determined by reference to an active market or by some other method); and
7. If the recoverable amount represents the asset's value in use, the government entity shall disclose the discount rate(s) used in the current and previous estimate (if any) of the value in use.

Policy 8 - Impairment of Non-Cash-Generating Assets

Table of Contents for the Policy on Impairment of Non-Cash-Generating Assets

1. Policy Objective

The objective of this policy is to prescribe the procedures to be applied to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognized. This policy also specifies when a government entity should reverse an impairment loss and clarifies the necessary disclosures.

This policy primarily addresses the following topics:

1. Identifying non-cash-generating assets;
2. Identifying assets that may be impaired: impairment indicators;
3. The basis for measuring the recoverable service amount and the various methods used;
4. The method of recognizing and measuring an impairment loss;
5. Addressing cases of reversing a loss and how to recognize it; and
6. Presentation and disclosure requirements related to the impairment of non-cash-generating assets.

2. Scope

The government entity applies this policy to the following investments, only when these financial assets are considered non-cash-generating assets. These investments include the following:

1. Controlled entities, as defined in the "Consolidated Financial Statements" policy;
2. Associate entities, as defined in the "Investments in Associates and Joint Ventures" policy; and
3. Joint arrangements, as defined in the "Joint Arrangements" policy.

3. Identifying Non-Cash-Generating Assets

Non-cash-generating assets represent all assets that are not classified and considered as cash-generating assets. Non-cash-generating assets include, but are not limited to:

1. Buildings used by the government entity to provide social services free of charge;
2. Infrastructure assets that do not generate any commercial return;
3. Computer software used to facilitate the provision of services to the public without generating a significant commercial return.

Referring to the "Impairment of Cash-Generating Assets" policy, cash-generating assets include assets held with the primary objective of generating a commercial return, where an asset generates a commercial return when it is used in a manner consistent with that adopted by the government entity, as holding an asset to generate a "commercial return" indicates that the government entity intends to:

1. generate positive cash inflows from that asset (or from the cash-generating unit of which the asset is a part);
2. earn a commercial return that reflects the risks associated with holding the asset.

Example - A Non-Cash-Generating Asset Held Primarily for Service Provision

The Department of Municipality and Planning operates a waste disposal plant to ensure the proper disposal of medical waste (as the plant's primary activity) produced by government-affiliated public hospitals, but the plant also processes (as a secondary activity) a small amount of medical waste produced by private sector hospitals on a commercial basis for a fee. In this case, it is not possible to distinguish between cash-generating and non-cash-generating assets because the primary purpose of the plant is to provide services.

In other cases, a specific asset may generate cash flows as well as be used for non-cash-generating purposes. The purpose of holding the asset and the extent to which a commercial return is intended to be generated from the asset must be determined, and based on that, the applicable accounting standard is determined:

1. ("Impairment of Cash-Generating Assets" policy); or
2. This policy.

Example - A Cash-Generating Asset Used for Non-Cash-Generating Purposes

A public hospital affiliated with the government of Ajman owns ten wings for treating patients. Nine of them are used for patients who pay treatment fees on a commercial basis, and the remaining wing is used for patients who are unable to pay treatment fees or who are covered by an administrative exemption from paying treatment fees. It is noted that patients from all wings jointly use all other hospital facilities.

Here, the extent to which the asset is held for the purpose of providing a commercial return must be considered to determine whether this policy or the "Impairment of Cash-Generating Assets" policy should be applied.

4. Indicators of Impairment

At each reporting date, the government entity must assess whether there are indications of a possible impairment of an asset. If such indications exist, the government entity must estimate the recoverable service amount of the asset.

Regardless of whether there is any indication of impairment, the government entity performs an annual impairment test for the following assets:

1. An intangible asset that has an indefinite useful life;
2. An intangible asset not yet available for use.

The impairment test for these intangible assets can be performed at any time during a reporting period, provided it is performed at the same time each year. Different intangible assets can be tested for impairment at different times, but if an intangible asset is initially recognized during the current reporting period, that intangible asset should be tested for impairment before the end of the current reporting period.

When assessing whether there is any indication of a possible impairment of an asset, the government entity must consider, as a minimum, the following indicators:

Information from external sources

1. Cessation or imminent cessation of the demand or need for services provided by the asset;
2. Significant long-term changes with an adverse effect on the government entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the government entity operates.

Information from internal sources

1. Evidence is available of physical damage to the asset;
2. Significant long-term changes with an adverse effect on the government entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or

manner in which, the asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the unit to which the asset belongs, plans to dispose of the asset before the previously expected date, and reassessing the useful life of the asset as finite rather than indefinite;

3. A decision to halt the construction of the asset before it is complete or in a condition available for use;
4. Evidence is available from internal reports that indicates that the service performance of the asset is, or will be, worse than expected, for example:

   ✓ The costs of operating or maintaining the asset are significantly higher than those that were budgeted;

   ✓ The service levels and output of the asset are significantly lower than those that were expected at the beginning of the period.

If there is an indication of an asset's impairment, this may indicate that the following need to be reviewed and adjusted:

a. The remaining useful life; or

b. The depreciation (amortization) method; or

c. The residual value of the asset in accordance with the government policy applicable to the asset, even if no impairment loss is recognized for the asset.

4.1. Measuring the Recoverable Service Amount of an Intangible Asset with an Indefinite Useful Life

The government entity tests an intangible asset with an indefinite useful life for impairment annually. This is done by comparing its carrying amount with its recoverable service amount, regardless of whether there is any indication that it may be impaired. However, the most recent detailed calculation of the asset's recoverable service amount made in a previous period may be used in the impairment test for that asset in the current period, provided all of the following conditions are met:

1. If the intangible asset does not provide service potential from continuing use that is largely independent of that from other assets or groups of assets and is therefore tested for impairment as part of

the non-cash-generating unit to which it belongs, and the assets and liabilities comprising that unit have not changed significantly since the most recent recoverable amount calculation;

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## 5. Recognition of Financial Instruments

The government entity recognizes a financial asset or a financial liability in its statement of financial position only when it becomes a party to the contractual provisions of the financial instrument. The government entity does not offset a financial asset and a financial liability and present the net amount in the statement of financial position, unless the government entity:

1. has a legally enforceable right to set off the recognized amounts; and
2. intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The government entity uses trade date accounting when recognizing financial instruments that are traded (sold or purchased) based on the regular way for selling or purchasing financial assets.

Trade date accounting refers to:

1. the recognition of a financial asset to be received and the financial liability to be paid on the trade date; and
2. the derecognition of a financial asset when it is sold and the recognition of any receivables resulting from the sale transaction on the trade date.

## 6. Initial Measurement of Financial Instruments

Upon initial recognition of financial assets or financial liabilities, the government entity measures them at fair value plus transaction costs, except for financial assets or financial liabilities at fair value through surplus or deficit, which are measured at fair value. The following diagram shows the value that the government entity uses for initial measurement:
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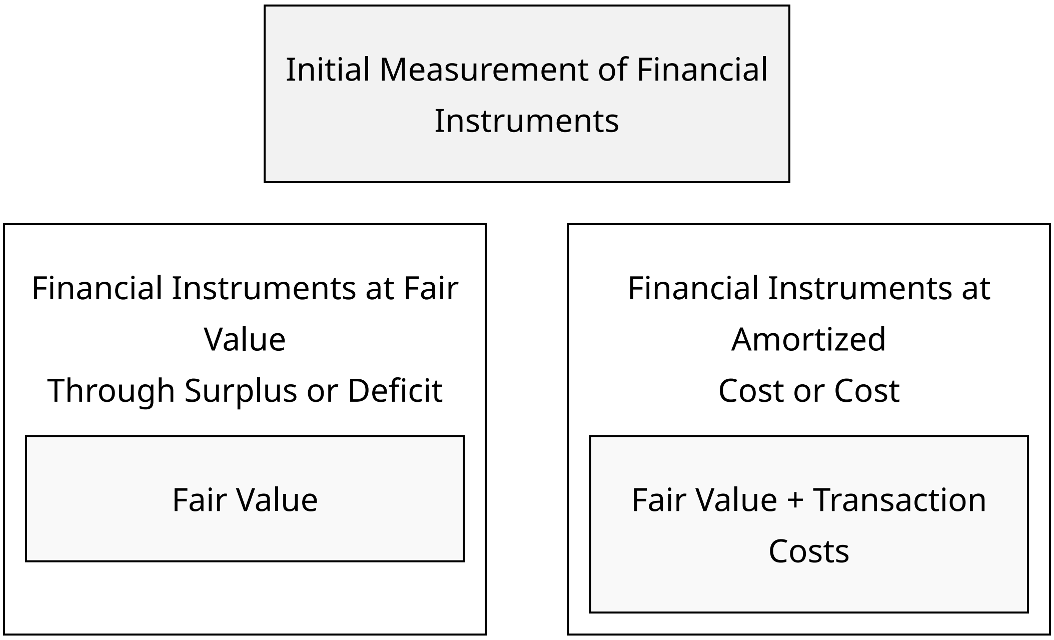

7. Subsequent Measurement of Financial Instruments

7.1. Subsequent Measurement of Financial Assets

The subsequent measurement of an asset depends on the category to which the respective asset belongs.

The government entity subsequently measures all financial assets, including derivatives, at their fair value without considering transaction costs that are expected to be paid directly to complete the relevant transaction, but this does not include the following categories of financial assets:

1. Loans and receivables which are measured at amortized cost using the effective interest rate method;
2. Held-to-maturity investments which must be measured at amortized cost using the effective interest rate method;
3. Investments in equity instruments which are measured at cost when they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

The fair value of investments in equity instruments that do not have a quoted market price in an active market, and include derivatives linked to them that must be settled by delivering this instrument, is reliably measurable if:

1. the variability in the range of reasonable fair value estimates is not significant for that instrument; or
2. the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

The following table summarizes the subsequent measurement requirements for financial assets:

Category	Subsequent Measurement Basis	Subsequent Measurement – Changes in Value	Impairment Test (if objective evidence exists)
At Fair Value through Surplus or Deficit	Fair Value	Statement of Financial Performance	No
Loans and Receivables	Amortized Cost	Statement of Financial Performance	Yes
Held-to-Maturity Investments	Amortized Cost	Statement of Financial Performance	Yes
Available-for-Sale Financial Assets	Fair Value	Statement of Changes in Net Assets	Yes
	Cost (if fair value is not reliably measurable)	Statement of Financial Performance	Yes

Example: Recording Revenue from a Held-to-Maturity Financial Asset

On January 1, 2015, the Department of Finance purchased bonds in an independent company that mature in one year, have a 5% interest rate (coupon), and a face value of AED 1,000. The Department of Finance paid AED 1,000 for the bond. If the bonds are held to maturity, the company will pay AED 50 in interest + AED 1,000 as the value of the matured bond.

Step One - At the time of purchasing the bond:

Description	Statement	Debit	Credit
Financial Asset - Held-to-Maturity Investments	Financial Position	1,000	
Cash – Bank Account	Financial Position		1,000

Step Two - Upon maturity of the bond (December 31, 2015):

Description	Statement	Debit	Credit
Cash – Bank Account	Financial Position	1,050	
Financial Asset	Financial Position		1,000
Revenue – Interest Income	Financial Performance		50

If this bond was purchased at a discount and the coupon interest paid from this bond is higher than the market interest, refer to the example: Recognition and Measurement of Financial Assets.

Example: Recognition and Measurement of Financial Assets

On June 1, 2015, the Department of Finance provided an amount of AED 500,000 to Ajman Transport in the form of a loan, as part of financing development projects, on the condition that Ajman Transport repays the amount in annual installments over the next five years but without the need to pay any interest on the borrowed amount. The prevailing market interest rate for loans with similar characteristics to the amount loaned by the Department is estimated at 8%.

Step One: The Department of Finance determines the fair value of the loan by determining the present value of future payments using the prevailing interest rate.

The present value of future payments related to this loan is calculated as follows:

- ✓ Annually collected amounts: AED 100,000.
- ✓ Prevailing market interest rate: 8%
- ✓ Number of years: 5
- ✓ Present value of future payments: 100,000 x $((1-1.08^{-5})/0.08)$ = 399,271

The Department of Finance records the loan granted at fair value (399,271), with the difference (100,729) with the cash paid (500,000) being recorded in the statement of financial performance.

* This amount is calculated using the "present value of an annuity" formula, which is calculated as follows:

$$P\ [\ (1 - (1 + r)^{-n})\ /\ r\ ]$$

- Where the letter P represents the amounts collected annually.
- Where the letter r represents the prevailing market interest rate.
- Where the letter n represents the number of years or payments.

Upon initial recognition, the Department of Finance records the following entry:

Description	**Statement**	**Debit**	**Credit**
Financial Asset – Loan	Financial Position	399,271	

Description	Statement	Debit	Credit
Expenses – Concessionary Loans Granted	Financial Performance	100,729	
Cash – Bank Account	Financial Position		500,000

At the end of each financial period and for the purpose of preparing financial statements, the Department of Finance tracks the interest amounts for the relevant period, and reduces the value of the financial asset using the amortized cost method when the private institution makes the relevant payments.

Step Two: The Department of Finance determines the value of the interest for each financial period and tracks the value of the financial asset based on the amounts collected from the respective institution:

Date	Amount Collected	Interest Value (Loan's carrying amount at the beginning of the period × interest rate)	Amount related to the reduction of the loan's carrying amount (Amount collected – Interest value)	Loan's Carrying Amount
01/01/2015	-	-	-	399,271
31/12/2015	100,000	31,942	68,058	331,213
31/12/2016	100,000	26,497	73,503	257,710
31/12/2017	100,000	20,617	79,383	178,326
31/12/2018	100,000	14,266	85,734	92,592
31/12/2019	100,000	7,408	92,592	0
Total	**500,000**	**100,729**	**399,271**	

On this basis, the Department of Finance records the following entry on the date the amount for the first year is collected, i.e., on December 31, 2015.

Description	**Statement**	**Debit**	**Credit**
Cash – Bank Account	Financial Position	100,000	
Financial Asset – Loan	Financial Position		68,058
Revenue – Interest Income	Financial Performance		31,942

It also records the same entry for the remaining years, taking into account the use of the amounts related to each year, as shown in the table.

7.2. Subsequent Measurement of Financial Liabilities

After initial recognition, the government entity measures all financial liabilities at their amortized cost, using the effective interest method, with the following exceptions:

1. Financial liabilities at fair value through surplus or deficit. These liabilities are measured at fair value, including derivatives;
2. Financial liabilities that arise when the transfer of a financial asset is not eligible for derecognition or when the continuing involvement approach is applied;
3. Financial guarantee contracts, which the government entity has not considered as part of the "Financial liabilities at fair value through surplus or deficit" category, the government entity subsequently measures these liabilities at the higher of:
   - ✓ The amount determined based on the "Provisions, Contingent Liabilities and Contingent Assets" policy;
   - ✓ The value recorded at initial measurement minus the accumulated amortization recognized according to the "Revenue from Exchange Transactions" policy, in case revenue was received in exchange for providing the guarantee from the other party.
4. Commitments to provide a loan at an interest rate lower than the market rate, where the government entity deals with these liabilities as shown for financial guarantee contracts.

Example: Recognition and Measurement of a Financial Liability

In the current year, the Department of Finance received a concessionary loan from the Central Bank of the United Arab Emirates worth AED 500 million to develop infrastructure in a specific area over the next four years.

It was agreed to repay the loan over the next five years as follows:

Year 1	Nothing
Year 2	10%
Year 3	20%
Year 4	30%
Year 5	40%

Currently, similar loans are traded in financial markets at an average interest rate of 8%.

Based on this information, the Department of Finance determines the difference between the interest calculated based on the interest rate applied to the loan and the prevailing market interest rate for similar loans. The present value of future payments related to this loan is calculated as follows:

Year	Percentage of the loan to be paid	Payment Value (AED 500 million x Percentage)	Present Value of the Payment (Payment Value / $1.08^{\text{Number of Years}}$)	Difference
Year 1	0%	-	-	131,378,718

Year	Percentage of the loan to be paid	Payment Value (AED 500 million x Percentage)	Present Value of the Payment (Payment Value / $1.08^{\text{Number of Years}}$)	Difference
Year 2	10%	50,000,000	42,866,941	
Year 3	20%	100,000,000	79,383,224	
Year 4	30%	150,000,000	110,254,478	
Year 5	40%	200,000,000	136,116,639	
Total	**100%**	**500,000,000**	**368,621,282**	

Thus, the fair value of the loan is AED 368,621,282, and on this basis, the difference of AED 131,378,718 is considered revenue from non-exchange transactions.

Upon concluding the agreement: Initial recognition of the cash received from the Central Bank, the loan, and the revenue related to the non-exchange part of the transaction:

Description	Statement	Debit	Credit
Cash – Bank	Financial Position	500,000,000	
Financial Liability – Loan	Financial Position		368,621,282
Revenue from a non-exchange transaction	Financial Performance		131,378,718

The Department of Finance determines the borrowing costs based on the effective interest rate and determines the carrying amount of the loan (reducing the liability by following the amortized cost method) upon paying the related amounts to the Central Bank.

Date	Amount Paid Annually	Interest Value (Loan's carrying amount at the beginning of the period × interest rate)	Amount related to the reduction (increase) of the loan's carrying amount "Amount repaid – interest value"	Loan's Carrying Amount
Start of Year 1	-	29,489,703	-	368,621,282
End of Year 1	-		(29,489,703)	398,110,985
End of Year 2	50,000,000	31,848,879	18,151,121	379,959,864
End of Year 3	100,000,000	30,396,789	69,603,211	310,356,653
End of	150,000,000	24,828,532	125,171,468	185,185,185

Date	Amount Paid Annually	Interest Value (Loan's carrying amount at the beginning of the period × interest rate)	Amount related to the reduction (increase) of the loan's carrying amount "Amount repaid – interest value"	Loan's Carrying Amount
Year 4				
End of Year 5	200,000,000	14,814,815	185,185,185	0
Total	**500,000,000**	**131,378,718**	**368,621,282**	

On this basis, the Department of Finance records the following entry at the end of the first year:

Description	Statement	Debit	Credit
Expenses – Borrowing Costs	Financial Performance	29,489,703	
Financial Liability – Loan	Financial Position		29,489,703

At the end of the second year, and upon payment of the first installment of the loan, the accounting entries for the government entity are as follows:

Description	Statement	Debit	Credit
Expenses – Borrowing Costs	Financial Performance	31,848,879	
	Financial Position	18,151,121	

Description	Statement	Debit	Credit
Financial Liability – Loan			
Cash – Bank Account	Financial Position		50,000,000

It also records the same entry for the remaining years, taking into account the use of the amounts related to each year, as shown in the table.

7.3. Determining Fair Value

The government entity determines the fair value by following this order:

1. Quoted price in an active market: A market is considered active when quoted prices that reflect usual market transactions are readily and regularly available, which includes information from any exchange, dealer, broker, industry group, pricing service, or regulatory agency. The quoted market price for an asset held or a liability to be issued is usually the current bid price. For an asset to be acquired or a liability held, it is the current offer or asking price. When current bid and offer prices are not available, the price of the most recent transaction is evidence of the current fair value, provided there has been no significant change in economic circumstances between the transaction date and the financial reporting date;
2. Valuation techniques: The government entity relies on valuation techniques if the market for the financial instrument is not active. Valuation methods include the following:
   - ✓ Using recent market transactions between knowledgeable, willing parties, if available;
   - ✓ Referring to the current fair value of another financial instrument that is substantially similar to the financial instrument whose fair value the government entity is determining;
   - ✓ Discounted cash flow analysis by estimating the present value of future cash flows of the financial instrument over the contract period, using the market interest rate;
   - ✓ Option pricing models, used for certain types of financial assets (e.g., put options or call options).

When relying on valuation techniques, the government entity must use market inputs to the maximum extent possible and rely on entity-specific information to the minimum extent possible.

Example: Determining Fair Value

A government entity owns an investment in a private enterprise that it has classified under the "Available-for-Sale Financial Assets" category. The shares of the concerned enterprise are listed on two different active markets. The government entity can obtain information about these shares from both markets.

On the date of preparing the financial statements, the government entity gathers the following information:

- ✓ The share price in the first active market is estimated at AED 55, and in addition, the transaction costs are estimated at AED 5 (so the net amount the government entity can collect is AED 50 per share);
- ✓ The share price in the second active market is estimated at AED 60, and in addition, the transaction costs are estimated at AED 12. (so the net amount the government entity can collect is AED 48 per share).

On this basis, the first market is considered the most appropriate market for trading the concerned share, and therefore the fair value of this share is determined to record the changes related to it based on the information related to the first market, meaning that the fair value of the share is AED 55 (transaction costs should not be taken into account when recording changes in subsequent measurement for the purpose of preparing financial statements).

7.4. Determining the Effective Interest Rate

With respect to financial instruments at amortized cost, the government entity records the related expenses, which are in the form of interest/ financing costs (for financial liabilities) or interest income (for financial assets), using the effective interest rate method. This method enables the determination of the effective interest rate by which both of the following can be equated:

1. The present value of the cash flows related to the settlement of the financial instrument and its related interest expected during the anticipated life of the financial instrument;
2. The amount recognized at initial recognition.

The government entity uses the effective interest rate to apply it to the carrying amount at each reporting date to determine the interest expense or income for the period.

Example: Determining the Effective Interest Rate

On January 1, 2013, the Department of Finance issued bonds for cash amounting to AED 9,000,000, at an interest rate of 10% per annum, where the interest and the principal amount of the bonds are repaid at the end of the third year.

On this basis, the Department of Finance determines the effective interest rate by equating the following equation:

Present value of cash flows related to the settlement of the financial instrument and its related interest expected during the anticipated life of the financial instrument	=	Amount recognized at initial recognition

$$9{,}000{,}000 = \frac{9{,}000{,}000 * 10\% * 3 + 9{,}000{,}000}{(1 + x)^3}$$

By using a financial calculator, the effective interest rate x is calculated, which is estimated at 9.14%.

8. Recognition of Gains and Losses

The government entity recognizes the gain or loss arising from a change in the fair value of a financial asset or a financial liability as follows:

1. Recognize the gain or loss in the statement of financial performance for a financial asset or financial liability classified under the fair value through surplus or deficit category;
2. A gain or loss from a change in the value of a financial asset classified as available-for-sale is recognized separately directly in net assets. The government entity continues to recognize accumulated gains and losses in net assets until the financial asset is derecognized, at which point the previously aggregated gain or loss in net assets is recognized in the statement of financial performance. It should be noted that interest calculated using the effective interest rate method is recognized in the statement of financial performance, and dividends or similar distributions on available-for-sale equity instruments are also recognized in the statement of financial performance when the government entity's right to receive these payments arises.

A gain or loss is recognized in the statement of financial performance for financial assets and financial liabilities recorded at amortized cost when the government entity undertakes the following transactions:

1. Derecognition of the financial asset or financial liability;
2. Recording an impairment of a financial asset; or
3. Through the amortization process.

9. Reclassification of Financial Instruments

9.1. Reclassification of Financial Instruments to and from the Fair Value Through Surplus or Deficit Category

The government entity cannot reclassify any financial instrument to the fair value through surplus or deficit category after its initial recognition. Nor can it reclassify a financial instrument out of the fair value through surplus or deficit category if it was initially recognized within this fair value through surplus or deficit category.

With respect to financial assets held by the government entity for trading in the short term and classified outside the fair value through surplus or deficit category, if the financial asset is no longer held for the purpose of being sold or repurchased in the near term (although it may have been acquired primarily for the purpose of being sold or repurchased in the short term), this is in rare cases and requires meeting the requirements in the two points below).

The government entity can reclassify a financial asset that meets the definition of loans and receivables (if it was not held for trading at initial recognition) out of the fair value through surplus or deficit category if the government entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If the government entity reclassifies a financial asset held for trading out of the fair value through surplus or deficit category, the financial asset is reclassified to the new category at fair value on the reclassification date. Any previously recognized gain or loss in surplus or deficit should not be reversed. The fair value of the financial asset on the reclassification date becomes its new cost or amortized cost, as applicable.

9.2. Reclassification of an Available-for-Sale Financial Asset to Loans and Receivables

The government entity can reclassify a financial asset that was classified in the available-for-sale financial assets category at initial recognition to the loans and receivables category (if it was not considered an available-for-sale asset at initial recognition and the entity now has the intention and ability to hold the financial asset for the foreseeable future or until maturity) upon meeting the definition of "loans and receivables," provided the government entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If the government entity reclassifies the financial asset out of the available-for-sale assets category, it should reclassify the financial asset at its fair value on the reclassification date. With respect to any previous gain or loss arising from that asset that has been recognized in net assets, its accounting treatment depends on the maturity date of the concerned asset, such that:

1. In the case of a financial asset with a fixed maturity date, the gain or loss is amortized in the statement of financial performance over the remaining life of the asset until maturity using the effective interest rate method. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the financial asset using the effective interest rate method.
2. In the case of a financial asset that does not have a fixed maturity date, the gains or losses remain in net assets until the financial asset is sold or disposed of, at which point they must be recognized in surplus or deficit.

9.3. Reclassification of a Held-to-Maturity Investment to an Available-for-Sale Financial Asset

If it is no longer appropriate to classify an investment as held-to-maturity, as a result of a change in the intention or ability of the government entity, it is reclassified as an available-for-sale asset and remeasured at fair value.

When sales or reclassifications of a significant amount of held-to-maturity investments do not meet any of the stated conditions, any remaining held-to-maturity investments must then be reclassified as available-for-sale.

9.4. Reclassification of an Available-for-Sale Financial Asset to a Held-to-Maturity Investment

If it becomes appropriate to record a financial asset or liability at cost or amortized cost instead of fair value, due to a change in intention or ability or in circumstances where a reliable measurement of fair value is not available or because the "previous two financial years" have passed, the fair value of the recorded amount of the financial asset or liability at that date becomes its cost or amortized cost.

10. Impairment of Financial Assets

The government entity impairs a financial asset or a group of financial assets and records impairment losses only when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), where the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The government entity does not impair financial assets and recognize expected losses from future events, no matter how probable they are.

Example: Not recording expected losses from future events

A government entity (the lender) lent an amount of AED 50,000 to an employee. Based on historical experience, the government entity expects not to collect 1% of the original amount of loans provided to employees.

The government entity may not reduce the value of the financial asset (the loan granted) by 1% (i.e., by AED 5,000) at initial recognition, as an impairment loss is not recognized unless there is objective evidence of impairment resulting from any previous event that occurs after initial recognition.

The government entity analyzes evidence of impairment, taking it into consideration with all other available information. Objective evidence that a financial asset or group of assets is impaired includes:

1. The party that issued the financial asset or is required to settle it faces significant financial difficulty;
2. A breach of contract, such as a default in the payment of interest or principal;
3. The borrower is granted a concession by the lender that would not have been considered if there were no economic or legal reasons related to the borrower's financial difficulties;
4. A high probability of the borrower going bankrupt or entering a phase of financial reorganization or restructuring;
5. The absence of an active market for the financial asset due to financial difficulties;
6. The existence of data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets,

although the decrease cannot yet be identified for individual financial assets in the group, including, for example:
    - ✓ An increasing number of late payments; or
    - ✓ A recession in local or global economic conditions that are linked to payment defaults on financial assets.
7. Information about significant changes that have a negative impact and have occurred in the technological, economic, legal, or market environment in which the party that issued the equity rights operates;
8. A decrease in the fair value of an investment in an equity instrument compared to the cost of the financial asset, and that decrease is significant or extends for a long period of time.

10.1. Impairment of Financial Assets Recorded at Amortized Cost

If there is objective evidence of impairment of loans and receivables or held-to-maturity investments recorded at amortized cost, the government entity measures the amount of the loss as the difference between:

1. The carrying amount of the asset at the valuation date;
2. The present value of the estimated future cash flows (excluding future credit losses that have not been incurred) using the effective interest rate of the financial asset (the effective interest rate determined at initial recognition).

The government entity records the impairment value of the asset either:

1. Directly, by reducing the carrying amount of the impaired asset; or
2. By using a separate account to record the provision.

The government entity recognizes the impairment value in the statement of financial performance.

The government entity recognizes the amount reversed from a previously recognized impairment loss in the statement of financial performance to the extent that the asset's value does not exceed the recorded amount of the financial asset as it would have been if the impairment had not been recognized on the date the impairment is reversed.

Example: Recognizing Receivables and Recording Impairment Due to Doubts About Their Collection

A government entity issued fines to a company for an amount of AED 20,000 on September 30, 2015. An amount of AED 12,000 was collected in cash on October 31, 2015.

Step One - When issuing the fine to the debtor (on September 30, 2015), the government entity records the following entry, considering that it has not yet received any collections on that date:

Description	Statement	Debit	Credit
Financial Asset – Receivables	Financial Position	20,000	
Revenue	Financial Performance		20,000

Step Two – The amount collected from the company is recorded and the previously recorded debit amount is reversed (on October 31, 2015):

Description	Statement	Debit	Credit
Cash - Bank Account	Financial Position	12,000	
Financial Asset – Receivables	Financial Position		12,000

On December 29, 2015, it became apparent that the remaining amount of the receivables was doubtful of collection due to objective evidence of the company's inability to pay the amounts due, because of the probability of its bankruptcy, and therefore the remaining amount was considered a doubtful debt.

A provision for doubtful debts is established according to the following entry and the receivables are presented in the statement of financial position at the net value after deducting the provision for doubtful debts:

Description	Statement	Debit	Credit
Losses - Provision for Doubtful Debts	Financial Performance	8,000	
Asset Reduction – Provision for Doubtful Debts	Financial Position		8,000

10.2. Impairment of Financial Assets Recorded at Cost

If there is objective evidence of impairment of an unlisted equity instrument not recorded at fair value because its fair value cannot be reliably measured, or if there is objective evidence of an impairment loss on a derivative asset linked to an unlisted equity instrument that must be settled by delivering this instrument, then the government entity must measure the amount of the impairment loss as the difference between:

1. The carrying amount of the financial asset;
2. The present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The government entity recognizes the impairment value in the statement of financial performance and does not reverse impairment losses in this case.

10.3. Impairment of Available-for-Sale Financial Assets

When a government entity recognizes a decrease in fair value as a loss in net assets, and if there is objective evidence of impairment of this asset, the government entity removes the accumulated loss that had been recognized in net assets and recognizes it in the statement of financial performance even though there is no derecognition of this asset.

The amount of the accumulated loss that is removed from net assets and recognized in the statement of financial performance is the difference between:

1. The acquisition cost (net of principal repayments and amortization) minus any impairment loss on that financial asset previously recognized in the statement of financial performance;

2. The current fair value.

The government entity does not reverse impairment losses recognized in the statement of financial performance for a specific investment in an equity instrument classified as available-for-sale, unless the increase can be objectively linked to a specific event that occurred after the recognition of the impairment loss in the statement of financial performance. In this case, the impairment loss is reversed, and the amount is recognized in the statement of financial performance.

Example: Impairment of Assets in Available-for-Sale Financial Assets

On May 1, 2012, a government entity purchased 18,000 shares in Company (A) for AED 36,000 (AED 2 per share) and classified them as available-for-sale financial assets.

On this basis, the government entity records the following entry upon purchase:

Description	**Statement**	**Debit**	**Credit**
Asset - Available-for-Sale Financial Assets	Financial Position	36,000	
Cash – Bank Account	Financial Position		36,000

On December 31, 2012, the share price was AED 1.25. On this basis, the government entity records the following entry:

Description	**Statement**	**Debit**	**Credit**
Net Assets – Fair Value Losses of a Financial Asset	Financial Position	13,500	
Asset – Available-for-Sale Financial Assets	Financial Position		13,500

On March 4, 2013, Company (B) acquired Company (A), where each share in Company (B) was valued at 0.56 shares in Company (A) (each share is equivalent to 0.56). On this basis, the government entity will own 10,000 shares in Company (B) instead of 18,000 shares (18,000 * 0.56 = 10,080, rounded to 10,000 for example purposes).

On this basis, the government entity records the following entry:

Description	**Statement**	**Debit**	**Credit**
Asset – Available-for-Sale Financial Assets (in Company (B))	Financial Position	22,500	
Fair Value Losses	Financial Performance	13,500	
Asset – Available-for-Sale Financial Assets (in Company (A))	Financial Position		22,500
Net Assets – Fair Value Losses of a Financial Asset	Financial Position		13,500

Value of Company (A) = 18,000 * 1.25 = 22,500

Value of Company (B) = 10,000 * 2.25 = 22,500

11. Derecognition of Financial Instruments

11.1. Derecognition of a Financial Asset

The government entity derecognizes a financial asset when:

1. The contractual rights to the cash flows from the financial asset expire or have been waived; or
2. The government entity transfers the contractual rights to receive the cash flows of the financial asset; or
3. The government entity transfers the asset while retaining the contractual rights to receive the cash flows of the financial asset, but

assumes a contractual obligation to pay the cash flows to a third party, provided that:

- ✓ The government entity has no obligation to pay amounts to the third party unless it collects corresponding amounts from the original asset;
- ✓ The government entity does not have the ability to sell or pledge the original asset except as security to the third party to settle the obligation by paying a cash amount;
- ✓ The government entity has an obligation to remit any cash flows it has collected on behalf of the third party without material delay. In addition, the government entity is not entitled to reinvest those cash flows, except for investments in cash and cash equivalents during the short settlement period from the date of collection to the date the amounts are transferred to the third party, and the interest earned from such investments is transferred to the third party.

When derecognizing financial assets, the government entity uses trade date accounting.

When the government entity transfers a financial asset, it should assess the extent to which it retains the risks and rewards related to the ownership of this financial asset. In this case:

1. If the government entity has transferred substantially all the risks and rewards of ownership of the financial asset, it should derecognize the financial asset and recognize assets or liabilities separately if they result from any rights or duties arising from the transfer;
2. If the government entity has retained substantially all the risks and rewards of ownership of the financial asset, it should continue to recognize the financial asset;
3. If the government entity has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it should determine whether it has retained control over this financial asset. In this case:
   - ✓ If the government entity has not retained control, it derecognizes the financial asset and separately recognizes

assets or liabilities arising from any rights or claims resulting from the transfer process;
- ✓ If the government entity has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

11.1.1. Transfer of Financial Assets Resulting in Derecognition

When the government entity transfers a financial asset and this results in the derecognition of the financial asset in its entirety, but the transfer results in the entity acquiring a new financial asset or assuming a new financial liability or a servicing liability, in this case, the entity recognizes the new financial asset, the new financial liability, or the servicing liability at fair value.

Upon derecognition of a financial asset in its entirety, the difference between:

1. The carrying amount;
2. The sum of the consideration received (including any new asset obtained minus any new liability assumed) and any accumulated gains or losses recognized directly in net assets is recognized (in the statement of financial performance).

11.1.2. Transfer of Financial Assets Not Resulting in Derecognition

If the transfer does not result in derecognition because the government entity still substantially retains all the risks and rewards of ownership of the transferred financial asset, it continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. In subsequent periods, the government entity recognizes any income from the transferred asset and any expense incurred on the financial liability.

11.1.3. Continuing Involvement in Transferred Assets

If the entity has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset, but retains control over the transferred asset, it continues to recognize the transferred asset to the extent of its continuing involvement in it. The extent of the entity's continuing involvement in the transferred asset represents the extent of its exposure to changes in the value of the transferred asset. For example:

1. When the entity's continuing involvement takes the form of a guarantee for the transferred asset, the extent of the entity's continuing involvement is the lower of:
   - ✓ the amount of the asset, or
   - ✓ the maximum amount of the consideration received that the government entity may be required to repay (the guarantee amount).
2. When the entity's continuing involvement takes the form of a purchase option on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase;
3. When the entity's continuing involvement takes the form of a cash-settled option or any similar condition on the transferred asset, the extent of the continuing involvement is measured in the same way as that resulting from non-cash settled options.

When the government entity continues to recognize the asset to the extent of its continuing involvement, it also recognizes a related liability. Notwithstanding other measurement requirements in this policy, the transferred asset and the related liability are measured on a basis that reflects the rights and claims retained by the government entity. The liability is measured so that the net recorded amount of the transferred asset and the related liability is:

1. The amortized cost of the rights and liabilities retained by the government entity, if the transferred asset is measured at amortized cost; or
2. The fair value of the rights and liabilities retained by the government entity, if the transferred asset is measured at fair value.

If the entity's continuing involvement is only in a part of a financial asset, the entity allocates the carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the fair values of those parts on the date of transfer. On this basis, the government entity recognizes the difference between the following two items in the statement of financial performance:

1. The amount allocated to the part the entity no longer recognizes;
2. The sum of the consideration received for the part the government entity has derecognized.

The government entity also records any accumulated gains or losses related to the asset (the part that has been derecognized) that were directly recognized in net assets by allocating the total amount of gains and losses on the basis of the fair values related to those parts.

11.1.4. All Transfers

If the government entity continues to recognize the transferred asset, offsetting the asset and the related liability is not permitted. Nor does the government entity offset any income arising from the transferred asset with any expense incurred on the related liability.

11.2. Derecognition of Financial Liabilities

The government entity derecognizes a financial liability (or part of a financial liability) from its statement of financial position when it is extinguished, by fulfilling the contractual obligation specified in the contract or by its cancellation or expiration.

When the government entity exchanges a liability (debt instruments with specific terms) with a second party (e.g., the lender) for another liability with terms that are substantially different from the first liability, on this basis, the government entity derecognizes the original financial liability and recognizes a new financial liability. The government entity also derecognizes a specific liability or part of it when a substantial modification of the terms of that liability occurs and recognizes a new financial liability.

When the government entity forgoes a liability or when the liability is assumed by another government entity or a third party as part of a non-exchange transaction, the "Revenue from Non-Exchange Transactions" policy is applied.

When the government entity repurchases part of a financial liability, it must allocate the carrying amount of the financial liability between the part that continues to be recognized and the part that has been derecognized based on the fair values related to those parts on the date of repurchase. The difference between the carrying amount allocated to the derecognized part and the consideration paid is recognized in the statement of financial performance, including any non-cash assets transferred or liabilities incurred for the derecognized part.

12. Disclosures

12.1. Statement of Financial Position

Categories of Financial Assets and Financial Liabilities

The government entity shall disclose in the statement of financial position itself or in the notes the carrying amounts for each of the following categories:

1. Financial assets at fair value through surplus or deficit, showing separately between:
    - ✓ those designated as such upon initial recognition;
    - ✓ those classified as held for trading;
2. Held-to-maturity investments;
3. Loans and receivables;
4. Available-for-sale financial assets;
5. Financial liabilities at fair value through surplus or deficit, showing separately between:
    - ✓ those designated as such upon initial recognition;
    - ✓ those classified as held for trading;
6. Financial liabilities measured at amortized cost.

Financial Assets or Financial Liabilities at Fair Value Through Surplus or Deficit

If any loan or receivable (i.e., any group of loans or receivables) is designated at fair value through surplus or deficit, the government entity shall disclose the following:

1. The maximum exposure to credit risk of the loan or receivable (or group of loans or receivables) at the reporting date;
2. The value of related credit derivatives or similar instruments that reduce exposure to credit risk;
3. The amount of the change (during the period and cumulatively) in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset, which is determined:
   - ✓ as the amount of the change in fair value that is not related to changes in market conditions that give rise to market risk; or
   - ✓ using an alternative method that the government entity believes represents the change in fair value related to changes in the credit risk of the asset.
   - ✓ Changes in market conditions (market risk) include observed changes in the (benchmark) interest rate, commodity price, foreign exchange rate, or price index or rates.
4. The amount of the change in the fair value of any credit derivatives or similar instruments that has occurred (during the period and cumulatively) since the loan or receivable was designated.

If the government entity has designated a financial liability at its fair value through surplus or deficit, it shall disclose the following:

1. The amount of the change during the period and the cumulative amount of the change in the fair value of the financial liability that is attributed to changes in the credit risk of that liability, which was determined either:
   - ✓ as the amount of the change in fair value that is not attributable to changes in market conditions that give rise to market risk; or
   - ✓ by using an alternative method where the government entity believes it more reliably represents the amount of the change in

its fair value that is attributable to changes in the credit risk of the liability.

2. The difference between the recorded carrying amount of the financial liability and the contractual amount that the government entity would be required to pay at maturity to the holder of the liability.

12.2. Reclassification

If the government entity reclassifies any financial asset as a financial asset to be measured:

1. at cost or amortized cost rather than at fair value; or
2. at fair value rather than at cost or amortized cost.

It must disclose the value that was reclassified to and from each category and the reason for the reclassification.

If the government entity reclassifies any financial asset from the fair value through surplus or deficit category (financial assets held for trading) or from the available-for-sale category, it must disclose the following:

1. The value reclassified into and out of each category;
2. The carrying amount and fair value of all reclassified financial assets in the current and prior reporting periods, for each reporting period until derecognition;
3. The rare case and the facts and circumstances indicating that the case was a rare case; if any financial asset was reclassified;
4. The fair value of the gain or loss arising from the financial asset recognized at fair value through surplus or deficit or in net assets in the current reporting period and the prior reporting period;
5. The fair value of the gain or loss that could be recognized in surplus or deficit or net assets if the financial asset had not been reclassified, while the surplus, deficit, revenue, and expense recognized in surplus or deficit were recognized, for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until the derecognition of the financial asset;
6. The effective interest rate and the estimated value of the cash flows expected to be recovered on the date of reclassification of the financial asset.

12.3 Derecognition

If financial assets have been transferred in a way that they must comply with the requirements of paragraph 11, the government entity must disclose the following for each class of such financial assets:

1. The nature of the assets;
2. The nature of the risks and benefits to which the government entity is exposed from the ownership of the assets;
3. The carrying amount of the assets if the government entity continues to recognize them, in addition to the associated liabilities; and
4. Disclosure of the carrying amount of the assets and liabilities that the government entity has continued to recognize to the extent of its continuing involvement in these assets.

12.3.1 Collateral

The government entity shall disclose the following:

1. The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified;
2. The terms and conditions relating to their pledge.

When the government entity holds collateral (financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose the following:

1. The fair value of the collateral held;
2. The fair value of any collateral sold or repledged, and whether the government entity has an obligation to return it;
3. The terms and conditions associated with its use of the collateral.

12.4 Allowance for Credit Losses Account

When financial assets are impaired by any credit losses and the government entity records the impairment in a separate account (i.e., an allowance account used to record individual impairments or a similar account used to record any collective impairment of assets) instead of directly reducing the carrying amount of the asset, the government entity shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

12.5 Default and Breaches

With respect to loans payable recognized at the financial statement date, the following shall be disclosed:

1. Details of any defaults during the period in principal, interest, or redemption provisions of these loans payable;
2. The carrying amount of the loans payable in default at the end of the reporting period;
3. Whether the defaults were remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorized for issue.

12.6 Statement of Financial Performance

The following items of revenue, expense, gains, or losses shall be disclosed either in the financial statements themselves or in the notes:

1. Net profit or loss from:
    - ✓ Financial assets or financial liabilities at fair value through surplus or deficit, showing separately for financial assets or financial liabilities at initial recognition and financial assets or financial liabilities classified as held for trading;
    - ✓ Available-for-sale financial assets, showing separately the amount of gain or loss recognized directly in net assets during the period and the amount reclassified from net assets and recognized in the statement of financial performance during the period;
    - ✓ Held-to-maturity investments;
    - ✓ Loans and receivables;
    - ✓ Financial liabilities measured at amortized cost.
2. Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through surplus or deficit;

3. Fee income and expense (other than amounts included in determining the effective interest rate) arising from:
    - ✓Financial assets or financial liabilities that are not measured at fair value through surplus or deficit;
    - ✓Trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;
4. Interest income accrued on impaired financial assets;
5. The amount of any impairment loss for each class of financial asset.

12.7 Other Disclosures

12.7.1 Accounting Policies

According to the "Presentation of Financial Statements" policy, the government entity shall disclose in the summary of significant accounting policies the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Fair Value

Except as previously mentioned, for each class of financial assets and financial liabilities, the fair value of that class of assets and liabilities shall be disclosed in a way that allows it to be compared with its carrying amount.

When disclosing fair values, the government entity must classify financial assets and financial liabilities into classes. The values of financial assets and financial liabilities cannot be offset except to the extent that their carrying amounts are offset in the statement of financial position.

The government entity shall disclose for each class of financial instrument:

1. The methods and, when a valuation technique is used, the assumptions applied in determining the fair values of each class of financial asset or financial liability. For example, the government entity should disclose information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates;

2. If there has been a change in valuation techniques, the government entity shall disclose that change and the reasons therefor.

The government entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

1. Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
2. Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), (observable inputs);
3. Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For fair value measurements recognized in the statement of financial position, the government entity shall disclose for each class of financial instrument:

1. The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements according to the levels defined above;
2. Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities;
3. For fair value measurements in Level 3, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to each of the following:
    - ✓ Total gains or losses for the period recognized in the statement of financial performance and a description of where they are presented in the government entity's statement of financial performance;
    - ✓ Total gains or losses recognized in net assets;
    - ✓ Purchases, sales, issues, and settlements, with each type disclosed separately;
    - ✓ Transfers into or out of Level 3 (e.g., transfers resulting from observable market data) and the reasons for them. Significant

transfers into Level 3 shall be disclosed and discussed separately from significant transfers out of Level 3;

4. For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the government entity shall state that fact and disclose the effect of those changes. The entity shall also disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to surplus or deficit, or total assets or total liabilities, or total net assets when changes in fair value are recognized in net assets.

Fair value disclosures are not required in the following cases:

1. When the carrying amount is a reasonable approximation of fair value, such as short-term trade receivables and payables;
2. For an investment in equity instruments that do not have a quoted price in an active market, or derivatives linked to such equity instruments, that is measured at cost because its fair value cannot be measured reliably; or
3. For a contract containing a discretionary participation feature if the fair value of that feature cannot be measured reliably.

In cases where the carrying amount is not equal to the fair value or prices are not quoted and the government entity is required to disclose information to assist users of the financial statements in making their own judgments about the extent of possible differences between the carrying amount of these financial assets or liabilities and their fair value, including:

1. The fact that fair value information for these instruments has not been disclosed because their fair value cannot be measured reliably;
2. A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;
3. Information about the market for the financial instruments;
4. Information about whether and how the government entity intends to dispose of the financial instruments;
5. Derecognition of financial instruments whose fair value could not previously be measured reliably should be disclosed, along with their

carrying amount at the time of derecognition and the amount of profit or loss recognized.

12.7.2 Concessionary Loans

Concessionary loans are granted by government entities on terms that are more favorable than market terms. The government entity shall disclose the following with respect to concessionary loans:

1. A reconciliation between the opening and closing carrying amount of the loans, including:
   - ✓The nominal value of new loans granted during the period;
   - ✓The fair value adjustment on initial recognition;
   - ✓Loans repaid during the period;
   - ✓Impairment losses recognized;
   - ✓Any increase during the period in the discounted amount arising from the passage of time;
   - ✓Other changes;
2. The nominal value of the loans at the end of the period;
3. The purposes and terms of the different types of loans;
4. Valuation assumptions.

12.8 Nature and Extent of Risks Arising from Financial Instruments

The government entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

12.8.1 Qualitative Disclosures

For each type of risk arising from financial instruments, the government entity shall disclose:

1. The exposures to risk and how they arise;
2. Its objectives, policies, and processes for managing the risk and the methods used to measure the risk;
3. Any changes from the previous period.

12.8.2 Quantitative Disclosures

For each type of risk arising from financial instruments, the government entity shall disclose:

1. A summary of quantitative data about its exposure to that risk at the end of the reporting period. This disclosure should be based on the information provided internally to the entity's key management personnel (as defined in the "Related Party Disclosures" policy).
2. The disclosures required by the preceding paragraphs to the extent not provided in the summary of quantitative data, unless the risk is not material (refer to the materiality principle as described in the "Presentation of Financial Statements" policy).
3. Concentrations of risk if not apparent from the two points above.

If the quantitative data disclosed at the end of the reporting period are unrepresentative of the entity's exposure to risk during the period, the entity shall provide further information that is representative of this exposure.

12.8.3 Credit Risk

The government entity shall disclose by class of financial instrument:

1. The amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements;
2. A description of collateral held as security and other credit enhancements in relation to the amount disclosed as maximum exposure to risk;
3. Information about the credit quality of financial assets that are neither past due nor impaired;
4. The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

12.8.4 Financial Assets that are Past Due or Impaired

The government entity shall disclose by class of financial asset:

1. An analysis of the age of financial assets that are past due as at the reporting period end but not impaired;
2. An analysis of financial assets that are individually determined to be impaired at the reporting period end. The entity shall also disclose the factors it considered in determining that they are impaired;
3. A description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.

12.8.5 Collateral and Other Credit Enhancements Obtained

When a government entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g., guarantees), and such assets meet the recognition criteria in other standards, the government entity shall disclose:

1. The nature and carrying amount of the assets obtained;
2. The policy for disposing of such assets or for using them in its operations, if such assets are not readily convertible into cash.

12.8.6 Liquidity Risk

The government entity shall disclose:

1. A maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
2. A maturity analysis for derivative financial liabilities. This should include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows;
3. A description of how it manages the liquidity risk inherent.

12.8.7 Market Risk

Sensitivity analysis arising from market instability

If the requirements for re-performing the sensitivity analysis are not applied, the government entity shall disclose:

1. A sensitivity analysis for each type of market risk to which the entity is exposed at the reporting period, showing how surplus or deficit and net assets would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
2. The methods and assumptions used in preparing the sensitivity analysis;
3. Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

If the government entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g., interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in the previous paragraph. The government entity shall also disclose:

1. An explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided;
2. An explanation of the objective of the method used and of limitations that may result from the information not fully reflecting the fair value of the related assets and liabilities.

12.8.8 Other Market Risk Disclosures

When the sensitivity analysis disclosed according to the market risk paragraphs does not represent the inherent risk of a financial instrument (because year-end exposure does not reflect the exposure during the year, for example), the government entity shall disclose that fact and the reason it believes the sensitivity analysis is unrepresentative.

Accounting Policies Manual

Chapter Four - Liabilities and Employee Benefits

Chapter Table of Contents

Definitions

Term	Definition
Liabilities	Are obligations arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential.
Constructive Obligation	Is an obligation that the government entity is committed to pay/perform a service based on past practices, published policies, or a specific current statement, creating an expectation in other parties that the government entity is responsible for fulfilling those duties.
Contingent Asset	Is an 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 government entity.
Contingent Liability	Is 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 government entity; or

Term	Definition
	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 ✓The amount of the obligation cannot be measured with sufficient reliability.
Executory Contracts	Are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
Legal Obligation	Is an obligation that derives from: ✓A contract (through its explicit or implicit terms); or ✓Legislation; or ✓Other operation of law.
Obligating Event	Is an event that creates a legal or constructive obligation that results in the government entity having no realistic alternative to settling that obligation.
Onerous Contract	Is 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.
Provision	Is a liability of uncertain timing or amount.
Restructuring	

Term	Definition
	A program that is planned and controlled by management, and materially changes either: ✓The scope of the government entity's activities; or ✓The manner in which those activities are conducted.
Defined Contribution Plans	Are post-employment benefit plans under which a government entity pays fixed contributions into a separate entity (a pension 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 periods.
Employee Benefits	Are all forms of consideration given by a government entity in exchange for service rendered by employees.
Other Long-Term Employee Benefits	Are employee benefits (other than post-employment benefits or termination benefits) which are not due to be settled wholly within twelve months after the end of the financial period in which the employees render the related service.
Post-Employment Benefits	Are employee benefits (other than termination benefits) which are payable after the completion of employment.
Post-Employment Benefit Plans	Are formal or informal arrangements under which a government entity provides post-employment benefits for one or more employees.
Short-Term Employee Benefits	Are employee benefits (other than termination benefits) which become due wholly within twelve

Term	Definition
	months after the end of the financial period in which the employees render the related service.
Termination Benefits	Are employee benefits payable as a result of either: 1. A government entity's decision to terminate an employee's employment before the normal retirement date; or 2. An employee's decision to accept voluntary redundancy in exchange for those benefits.

Policy 12 - Provisions, Contingent Liabilities and Contingent Assets

Table of Contents for Policy on Provisions, Contingent Liabilities and Contingent Assets

1. Policy Objective

The objective of this policy is to understand and explain the required disclosures for contingent liabilities and contingent assets in the notes to the financial statements to enable government entities to understand the nature, timing, and amount of these contingent liabilities/assets.

This policy also primarily addresses the following topics:

1. Defining provisions, contingent liabilities, and contingent assets,
2. Determining the circumstances under which provisions should be recognized, how they should be measured, and what information should be disclosed.

2. Scope

This policy applies to provisions, contingent liabilities, and contingent assets, except for:

1. Those provisions and liabilities arising from social benefits provided by a government entity for which it does not receive consideration directly from recipients that is approximately equal to the value of goods and services provided.
2. Those arising from executory contracts, unless the contract is onerous.
3. Those covered by another accounting manual; for example, leases (see "Leases" policy), employee benefits (see "Employee Benefits" policy).

Some amounts treated as provisions may be related to the recognition of revenue (for example, when a government entity provides warranties for a fee). However, this policy does not itself address the topic of revenue recognition, as defined by the "Revenue from Exchange Transactions" policy.

2.1. Difference between Provisions and Other Liabilities

A provision can be distinguished from other liabilities such as payables and accruals because in the case of a provision, there is uncertainty about the timing or amount of the future expenditure required for its settlement, whereas this information is available for:

1. Payables, which are liabilities to pay for goods and services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
2. Accruals, which are liabilities to pay for goods or services that have been received or supplied but have not been invoiced or formally

agreed with the supplier. Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

3. Provisions

3.1. Recognition

A provision shall be recognized when the following recognition criteria are met:

1. A government entity has a present obligation (legal or constructive) as a result of a past event;
2. It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
3. A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognized. The recognition criteria mentioned above are explained below.

3.1.1. Present Obligation

In most cases, it will be clear whether a past event has given rise to a present obligation. In other cases (e.g., in a lawsuit), it may be disputed whether certain events have occurred or whether those events result in a present obligation. In such a case, a government entity determines whether a present obligation exists at the reporting date by taking account of all available evidence (e.g., the opinion of experts). The evidence available includes any additional evidence provided by events after the reporting date. On the basis of such evidence:

1. Where it is more likely than not that a present obligation exists at the reporting date, the government entity recognizes a provision (if the recognition criteria are met); and
2. Where it is more likely that no present obligation exists at the reporting date, the government entity discloses a contingent liability,

unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

3.1.2. Past Event

A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the government entity has no realistic alternative to settling the obligation created by the event. This is the case only when:

1. The settlement of the obligation can be enforced by law; or
2. In the case of a constructive obligation, where the event (which may be an action of the government entity) creates valid expectations in other parties that the government entity will discharge the obligation.

Financial statements deal with the financial position of a government entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to operate in the future. The only liabilities recognized in a government entity's statement of financial position are those that exist at the reporting date.

3.1.3. Probable Outflow of Resources Embodying Economic Benefits or Service Potential

For an obligation to meet the recognition criteria, there must be a probable outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this policy, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur. Where it is not probable that a present obligation exists, the government entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote, in which case the entity makes no disclosure.

Example - Present Obligation, Past Event, and Probability of an Outflow of Economic Benefits

A contractor has sued the municipality for breach of contract. As of the date of approval of the financial statements for the year ended December 2017, the municipality's lawyer advises that it is probable that there is no evidence that the municipality breached the terms of the contract.

At the time of preparing the financial statements for the year ended December 2018, the municipality's lawyer advised that it is probable that liability will be established against the municipality and therefore it is probable that the municipality will pay damages.

Analysis and Accounting Treatment:

At December 31, 2017

Based on the available evidence at the reporting date, there is no indication of a present obligation arising from a past obligating event, as it has not been established and it is unlikely, based on the expert's opinion (the municipality's lawyer), that the municipality will bear any liability. Therefore, no provision for damages is recognized, but the matter is disclosed as a contingent liability.

At December 31, 2018

Based on the available evidence at the reporting date, there is an indication of a present obligation arising from a past obligating event, and the outflow of resources represented by the amount of damages has become probable. Therefore, a provision is recognized at the best estimate of the amount to settle the obligation.

3.1.4. Reliable Estimate of the Obligation

The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is particularly true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, a government entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognizing a provision.

In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognized. That liability is disclosed as a contingent liability.

3.2. Measurement

3.2.1. Measurement of Provisions by Estimate

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The best estimate of the expenditure required to settle the present obligation is the amount that a government entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that a government entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

The outcome and financial effect are determined by the judgment of the government entity's management, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

When measuring provisions, the following are also taken into account:

1. Risks and uncertainties;
2. Present value and discount rate;
3. Future events;
4. Expected disposal of assets;
5. Reimbursements;

Example - Measurement of Provisions by Estimate

The Department of Lands sells equipment to private companies. This equipment is sold with a warranty under which the cost of repairing any defects that appear in the first six months after purchase is covered. If minor defects were detected in all equipment sold, repair costs of AED 1 million could arise. If major defects were detected in all equipment sold, repair costs of AED 4 million could arise. The department's past experience and future expectations indicate that for the next year, 75% of the equipment will have no defects, 20% of the equipment will have minor defects, and 5% of the equipment will have major defects. The laboratory assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is as follows:

(75% with no defects) + (20% with minor defects usually repaired at a cost of 1 million) + (5% with major defects usually repaired at a cost of 4 million) = AED 400,000

3.2.2. Risk and Uncertainty

The risks (as well as uncertainties) surrounding many events and circumstances shall be taken into account in reaching the best estimate of a provision, as risk usually leads to a variation in outcomes and thus a difference in the calculation of the liability.

Care is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities.

3.2.3. Present Value and Discount Rate

Where the effect of the time value of money is material (e.g., settlement of the provision more than 12 months from the date of the statement of financial position), the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

The appropriate discount rate is a rate that reflects the specific risks of the liability, excluding future cash flows that have already been adjusted for risks as of the measurement date. When a provision is discounted over a number of years, the present value of the provision will increase annually as the expected settlement date approaches, and the increase is recognized as an interest expense in the statement of financial performance.

Example - Effect of Discount Rate on Provision Measurement

At the end of 2015, the Department of Finance estimated the expected value of a provision to be used to meet a specific obligation at the end of 2020 at AED 2,000. The appropriate discount rate that takes into account the risks associated with this cash outflow has been estimated at 12%. Method of calculating the provision: Present Value = Future Obligation / (1 + Interest)^Number of Periods

Year	Present Value	Increase
Current Time (End of 2015)	AED 1,134.85 = 2000 / (1.12)^5	
End of Year 1 (2016)	AED 1,271.04 = 2000 / (1.12)^4	136.18
End of Year 2 (2017)	AED 1,423.56 = 2000 / (1.12)^3	152.52
End of Year 3 (2018)	AED 1,594.39 = 2000 / (1.12)^2	170.83
End of Year 4 (2019)	AED 1,785.71 = 2000 / (1.12)^1	191.33

Journal Entries:

At the end of 2015

Description	Debit	Credit
Expense	1,134.85	
Provision		1,134.85

At the end of Year 1 (2016)

Description	Debit	Credit
Interest Expense	136.18	
Provision		136.18

End of Year 2 (2017):

Description	Debit	Credit
Interest Expense	152.52	
Provision		152.52

End of Year 3 (2018):

Description	Debit	Credit
Interest Expense	170.83	
Provision		170.83

End of Year 4 (2019):

Description	Debit	Credit
Interest Expense	191.33	
Provision		191.33

End of Year 5 (2020):

Description	Debit	Credit
Interest Expense	214.29	
Provision		214.29

When the obligation is paid from the provision:

Description	Debit	Credit
Provision	2,000	

Description	Debit	Credit
Accounts Payable / Bank		2,000

3.2.4. Future Events

Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur, for example:

- Inflation and expected changes in prices;
- The effect of future technology or techniques used;
- The effect of potential new legislation.

3.2.5. Expected Disposal of Assets

The government entity does not take into account gains from the expected disposal of assets when measuring a provision, even if the disposal is closely linked to the event giving rise to the provision. Instead, the government entity recognizes gains from the expected disposal of assets at the time specified by the guidance for the asset to be disposed of.

3.2.6. Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized only when it is virtually certain that reimbursement will be received if the government entity settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

In most cases, the government entity will remain liable for the whole amount of the provision such that it would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognized for the full amount of the liability, and a separate asset for the expected reimbursement is recognized when it is virtually certain that reimbursement will be received if the government entity settles the liability.

Example - Effect of Reimbursements on the Provision Account

The Department of Finance has provisioned a certain amount for a lawsuit against it at the end of the year. At year-end, the department was negotiating with the insurance company to reimburse the amount to be paid regarding the lawsuit, although there is a preliminary agreement with the insurance company that the reimbursement will be paid if the department loses the lawsuit.

Although the amount of reimbursement from the insurer has not been agreed upon at the end of the year, it is very likely that the amount payable in the lawsuit will be incurred after the end of the year and that the reimbursement will be agreed with the insurer before the financial statements are approved.

Therefore, a liability should be recognized for the expected amount if the insurance company does not pay for any reason, and at the same time, a separate asset is recognized in the financial statements if it is virtually certain at the date of the statement of financial position that the reimbursement will be received if the department settles the liability.

Illustrative Decision Tree

The purpose of the decision tree is to summarize the main recognition requirements contained in the guide.

Start

Is there a present obligation as a result of an obligating event?

- **Yes:** Is there a probable outflow of resources?
    - **Yes:** Is there a reliable estimate?
        - **Yes:** Create a provision
        - **No (rarely):** Disclose a contingent liability
    - **No:** No action required

        - **No:** Is there a possible obligation?
            - **Yes:** Is it remote?
                - **Yes:** No action required
                - **No:** Disclose a contingent liability
            - **No:** No action required

3.3. Subsequent Measurement

3.3.1. Review and Derecognition of Provisions

Provisions shall be re-measured at each statement of financial position date and the carrying amount of the liability adjusted accordingly. This re-measurement may result in an increase or decrease in the value of the provision, or the provision may be derecognized entirely based on new data.

3.3.2. Use of Provisions

A provision should be used only for expenditures for which the provision was originally recognized. Settling expenditures against a provision that was originally recognized for another purpose would conceal the impact of two different events.

3.4. Applications of Recognition and Measurement Rules

3.4.1. Future Net Operating Deficits

Provisions for future net operating deficits are not recognized because they do not meet the definition of a liability as defined in this policy. A future net operating deficit is an indication that certain operating assets may be impaired. In this case, the government entity tests these assets for impairment. Refer to the "Impairment of Non-Cash-Generating Assets" policy and the "Impairment of Cash-Generating Assets" policy.

3.4.2. Restructuring Provision

3.4.2.1. Recognition of a Restructuring Provision

A provision for restructuring costs is recognized when the general recognition criteria for provisions set out in this policy are met. A constructive obligation to restructure arises when:

1. It has started to implement the restructuring plan, or
2. It has announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the government entity will carry out the restructuring.

Evidence that the government entity has started to implement a restructuring plan may be provided, for example, by:

1. Public announcement of the main features of the plan, or
2. Sale or transfer of assets, or
3. Notification of the intention to cancel leases, or
4. Alternative arrangements for service customers.

If the government entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure may be required under the "Events After the Reporting Date" policy, if the restructuring is of such importance that its non-disclosure would affect the economic decisions of users of the financial statements.

3.4.2.2. Sale or Transfer of Operations

When a government entity makes a decision to sell or transfer an operation/activity and announces that decision, it is not committed to a sale until a purchaser is identified and there is a binding sale agreement.

Proposed transfers for recognition of a provision, the planned transaction may require disclosure under the "Events After the Reporting Date" policy and the "Related Party Disclosures" policy.

3.4.2.3. Measurement of a Restructuring Provision

A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

1. Necessarily entailed by the restructuring; and
2. Not associated with the ongoing activities of the entity.

A restructuring provision does not include such costs as:

1. Retraining or relocating continuing staff;
2. Marketing; or
3. Investment in new systems and distribution networks.

These expenditures relate to the future conduct of the activity and are not liabilities for restructuring at the reporting date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring.

Example - Measurement of Restructuring Provisions

The management of the Department of Economic Development decided to lay off 100 employees over the next two years. The termination costs related to employee benefits amount to AED 20 million, of which AED 8 million is payable in the first year and AED 12 million is payable within two years. The market yield for UAE treasury bonds in 2007 was 5.5% (used as a discount factor).

Management must recognize a provision for the termination costs at the present value of future cash flows, amounting to AED 18,364,360, calculated as follows:

	Year 1	Year 2	Total
Cash Flows	8,000,000	12,000,000	20,000,000
Discount Factor (5.5%)	0.94787	0.89845	
Present Value of Cash Flows	7,582,960	10,781,400	18,364,360
Difference: Interest Expense			1,635,640

The difference between the undiscounted cash flows and their present value of AED 1,635,640 is recognized as an interest expense over the first and second years.

3.4.3. Onerous Contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Therefore, the present obligation under an onerous contract shall be recognized and measured as a provision.

Before a separate provision for an onerous contract is established, a government entity recognizes any impairment loss that has occurred on assets dedicated to that contract.

Example - Onerous Contract

Suppose the Department of Lands and Real Estate Regulation leased a property from a third party. The lease is an operating lease for a period of 10 years and the rent is AED 50,000 per year. The total cost of the contract is therefore AED 500,000. The department did not occupy the property but arranged to sublease it for an amount of AED 30,000 per year for 10 years. The total revenue to be received from the sublessee is AED 300,000.

The cost of continuing with the lease and sublease is AED 200,000 (AED 500,000 - AED 300,000). The penalty for exiting the lease and sublease is AED 150,000. However, management believes that exiting the contract would not be in the best interest of the department's reputation and is therefore considering continuing with the lease and sublease.

Management should recognize a provision of AED 150,000, which is the lower of the cost of exiting the leases (AED 150,000) or the cost of continuing with the leases (AED 200,000). Management's decision to continue with the leases does not affect the amount to be recognized.

4. Contingent Liabilities

4.1. Recognition

A contingent liability is a liability with sufficient uncertainty to not qualify for recognition as a provision. A contingent liability should not be recognized but should be disclosed, as the probability of an outflow of resources embodying economic benefits or service potential is remote.

When a government entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of a debt on a joint venture, the part of the obligation that will be met by the other participants in the joint venture is treated as a contingent liability.

Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the rare circumstances where no reliable estimate can be made).

Example - Contingent Liability

The Department of Tourism Development may violate an environmental law but it remains unclear whether environmental damage has occurred. When it later becomes clear that damage has occurred and that remediation is required, the government body may recognize a provision because an outflow of economic benefits is now probable.

4.1.1. Relationship between Provisions and Contingent Liabilities

In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this guide, the term "contingent" is used for liabilities and assets that are not recognized because 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 government entity. In addition, the term "contingent liability" is used for liabilities that do not meet the recognition criteria in this guide.

4.2. Initial Measurement

A government entity shall measure contingent liabilities using the same principles used for provisions, as discussed, if it were to be recognized as a provision. Contingent liabilities are not measured if a reliable estimate of the amount of the obligation cannot be made.

4.3. Subsequent Measurement

A government entity shall review at each financial reporting date the appropriate classification of contingent liabilities and decide, in light of new facts and circumstances, whether the probabilities need to be reclassified into another appropriate category such as:

- Provisions (e.g., in the case of a contingent liability, the cash outflow becomes probable and the amount can be measured reliably); or
- Payables (e.g., the event that created the liability occurred and there is no uncertainty about the timing and amount of the obligation).

5. Contingent Assets

5.1. Recognition

A government entity shall not recognize a contingent asset.

Contingent assets usually arise from unplanned or other unexpected events that:

1. Are not wholly within the control of the government entity; and
2. Give rise to a possible inflow of economic benefits or service potential to the government entity.

An example is a claim that a government entity is pursuing through legal processes, where the outcome is uncertain. Contingent assets are not recognized in financial statements because this may result in the recognition of revenue that may never be realized. However, when the realization of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

5.2. Initial Measurement

At each financial reporting date, the appropriate classification of contingent assets must be reviewed and assessed to determine whether, in light of new facts and circumstances, the contingent assets should be reclassified into a more appropriate category.

5.3. Subsequent Measurement

1. At each financial reporting date, the appropriate classification of contingent assets must be reviewed and assessed to determine whether, in light of new facts and circumstances, the contingent assets should be reclassified into a more appropriate category.

Summary of Contingent Asset Treatment

Based on the above, contingent assets are treated as follows:

An asset is recognized according to the appropriate policy if the inflow of economic benefits or service potential is virtually certain, and therefore the asset is not contingent.	Disclosure only and no recognition of the asset when the inflow of economic benefits or service potential is probable but not virtually certain.	No disclosure or recognition of the asset if the inflow of economic benefits or service potential is not probable.

6. Presentation and Disclosure

6.1. Provisions

For each class of provision, a government entity shall disclose:

1. The carrying amount at the beginning and end of the period;

2. Additional provisions made in the period, including increases to existing provisions;
3. Amounts used (i.e., incurred and charged against the provision) during the period;
4. The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate; and
5. Unused amounts reversed during the period.

For each class of provision, a government entity shall disclose the following:

1. A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;
2. An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, a government entity shall disclose the major assumptions made concerning future events;
3. The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

6.2. Contingent Liabilities

For each class of contingent liability at the reporting date, a government entity shall disclose a brief description of the nature of the contingent liability, unless the possibility of any outflow in settlement is remote, and where practicable, shall disclose:

1. An estimate of its financial effect;
2. An indication of the uncertainties relating to the amount or timing of any outflow; and
3. The possibility of any reimbursement.

6.3. Contingent Assets

Where an inflow of economic benefits or service potential is probable, a government entity shall disclose a brief description of the nature of the contingent assets at the financial reporting date, and, where practicable, an estimate of their financial effect. It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising.

Policy 13 – Employee Benefits

Table of Contents for Employee Benefits Policy

1. Policy Objective

The objective of this policy is to establish the disclosure and accounting principles for employee benefits. This policy provides guidance and requirements for the recognition and measurement of both:

1. Its obligations related to employee benefits;
2. Expenses arising from short-term and long-term employee benefits.

2. Scope

Employee benefits include:

1. Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, bonuses (if payable within 12 months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;
2. Other long-term benefits, which may include long-service leave or sabbatical leave or other long-term benefits, long-term disability benefits, performance-related increases, and deferred compensation if payable 12 months or more after the end of the period; and
3. Termination benefits.

3. Short-Term Employee Benefits

Short-term employee benefits include:

1. Wages, salaries, and social security payments;
2. Short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is expected to be settled within 12 months after the end of the period in which the employees render the related service;
3. Performance-related increases payable within 12 months after the end of the period in which employees render their services;
4. Non-financial benefits (such as medical insurance, housing allowances, cars, or subsidized services) for current employees.

3.1. Recognition and Measurement

When an employee has rendered service to a government entity during an accounting period, the government entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as:

1. A liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the government entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will

lead to, for example, a reduction in future payments or a cash refund; and
2. An expense, unless another policy requires or permits the inclusion of the benefits in the cost of an asset (see, for example, the "Inventory" policy and the "Property, Plant, and Equipment" policy).

3.2. Short-Term Paid Absences

Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be vesting (i.e., employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognized, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement will affect the measurement of that obligation.

A government entity shall recognize the expected cost of short-term employee benefits in the form of paid absences as follows:

1. In the case of accumulating paid absences, when the employees render service that increases their entitlement to future compensated absences; and
2. In the case of non-accumulating paid absences, when the absences occur.

A government entity may compensate employees for absence for various reasons including annual leave, sickness and short-term disability, maternity or paternity, or military service. Entitlement to paid absences falls into two categories:

1. Accumulating; and
2. Non-accumulating.

A government entity shall measure the expected cost of accumulating paid absences as the additional amount that the government entity expects to pay as a result of the unused entitlement that has accumulated at the financial statement date.

4. Long-Term Benefits

4.1. Defined Contribution Plans

Accounting for defined contribution plans is straightforward because the reporting government entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service.

4.1.1. Recognition and Measurement

When an employee has rendered service to a government entity during a period, the government entity shall recognize the contribution payable to a defined contribution plan in exchange for that service as:

1. A liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a government entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
2. An expense, unless another policy requires or permits the contributions to be capitalized by including them in the cost of an asset.

4.2. Termination Benefits

4.2.1. Recognition and Measurement

This policy deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination of employment by the government entity (i.e., laying off an employee).

A government entity shall recognize termination benefits as a liability and an expense at the earlier of the following dates:

1. When the government entity can no longer withdraw the offer of those benefits; and
2. When the government entity recognizes costs for a restructuring that involves the payment of termination benefits.

A government entity shall measure termination benefits on initial recognition, and shall also recognize and measure subsequent changes, in accordance with the nature of the employee benefits, provided that if the termination benefits are an enhancement to post-employment benefits, the government entity shall apply the requirements for post-employment benefits.

Termination benefits do not provide a government entity with future economic benefits and are recognized as an expense immediately.

5. Disclosures

5.1. Short-Term Benefits

Although this policy does not require specific disclosures about short-term employee benefits, other policies may require disclosures. For example, the policy on the presentation of financial statements requires disclosures about employee benefits, and the "Related Party Disclosures" policy requires disclosure of information about key management personnel compensation.

5.2. Defined Contribution Plans

A government entity shall disclose:

1. The amount recognized as an expense for defined contribution plans;

2. As required by the "Related Party Disclosures" policy and the "Provisions, Contingent Liabilities and Contingent Assets" policy, a government entity discloses the following information:
    - ✓ Related party transactions with post-employment benefit plans; and
    - ✓ Post-employment benefits for key management personnel;
    - ✓ Information about contingent liabilities arising from post-employment benefit obligations.

5.3. Termination Benefits

Where there is uncertainty about the number of employees who will accept an offer of voluntary redundancy, a contingent liability exists. As required by the "Provisions, Contingent Liabilities and Contingent Assets" policy, a government entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

Accounting Policies Manual

Part Five – Revenue

Overview of Government Entity Revenue

This guide includes policies related to the recognition of revenue in government entities of the Government of Ajman. They are classified into two groups according to the nature and substance of the transactions, not their form:

1. Revenue from exchange transactions: This type of revenue arises from transactions in which a government entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (in cash, goods, services, or use of assets) in exchange.
2. Revenue from non-exchange transactions: This type of revenue arises from transactions where a government entity receives value or an asset, or a reduction in a liability from another entity without directly giving approximately equal value in exchange, or gives value or an asset, or a reduction in a liability to another entity without directly receiving approximately equal value in exchange.

Revenue can be separated as follows:

Revenue from Exchange Transactions	Revenue from Non-Exchange Transactions
• Rendering of services; • Sale of goods; • Interest; • Royalties; • Dividends.	• Taxes; • Transfers (including but not limited to contributions, fines, and donations).

The scope of this section excludes revenue arising from the following transactions, which are discussed in other standards:

1. Leases, which are discussed in the Leases policy;
2. Changes in the fair value of financial assets and liabilities, which are discussed in the Provisions, Contingent Liabilities and Contingent Assets policy;
3. Recognition and changes in the fair value of biological assets related to agricultural activity, which are discussed in the Agriculture policy;
4. Gains from the sale of property, plant, and equipment, which are discussed in the Property, Plant, and Equipment policy;
5. Dividends arising from investments which are accounted for using the equity method, which are discussed in the Financial Instruments policy.

Transactions undertaken by the government entities of the Government of Ajman result in various revenues which may include revenue from exchange transactions or revenue from non-exchange transactions. The chart below highlights the diversity of revenues in the Government of Ajman and the diversity of their sources, including but not limited to:

Overview of Revenue Types in the Government of Ajman

Issuance of Licenses and Permits: Most government entities provide services related to the issuance of licenses and permits.

Violations and Fines: Some entities issue violations or fines to other parties based on existing laws and regulations.

Service Fees: Some entities issue service fees.

Interest on Deposits and Dividends: Bank interest, dividends from invested companies.

Contributions and Donations: Some entities receive donations or contributions from the federal or local government or other parties.

Leasing of Buildings and Land: Some entities lease buildings and land.

Definitions

Term	Definition
Revenue	Revenue is the gross inflow of economic benefits and service potential during the financial reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.
Exchange transactions	Are transactions in which one government entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (in cash, goods, services, or use of assets) in exchange.
Non-exchange transactions	Are transactions where a government entity receives value or an asset or a reduction of a liability from another entity without directly giving approximately equal value in exchange, or gives value or an asset or a reduction of a liability to another entity without directly receiving approximately equal value in exchange.
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.

Term	Definition
Control of an asset	Control arises when the government entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.
Fines	Are economic benefits (cash or in-kind) receivable or received by government entities, as a result of a breach of laws or regulations.
Benefits in-kind	Means goods in-kind that are usually in the form of contributions, gifts, or donations given to a particular government entity by the transferor.
Conditions on transferred assets	Are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.
Transfers	Represent inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.
Restrictions on transferred assets	Are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.
Taxable event	Is the event that the government has decided to tax.
Taxes	Are economic benefits compulsorily paid or payable to government entities, in accordance with laws and/or regulations established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Term	Definition
Contributions from owners	Means contributions relating to the equity in a specific government entity. Equity represents the net assets (assets minus all liabilities) in the concerned entity.

Policy 14 – Revenue from Exchange Transactions

Table of Contents for the Revenue from Exchange Transactions Policy

1. Policy Objective

This policy aims to understand and explain the accounting treatment for revenue from exchange transactions, and to define the requirements related to the recognition and measurement basis of this revenue.

This policy primarily addresses the following topics:

1. Conditions for recognizing exchange revenue and its measurement basis;
2. Requirements and basis for recognizing revenue from:
    - ✓ Services;
    - ✓ Sale of goods;
    - ✓ Interest;
    - ✓ Royalties;
    - ✓ Shares (dividends).

2. Scope

This policy covers government services provided by government entities in return for economic benefits recorded as revenue. These include, for example, fees for issuing licenses, documents, certificates, and permits, as well as fees for tests and document attestation. Additionally, the provision of services may relate to the entity performing a task agreed upon over a specific period.

The sale of goods includes those produced by any government entity affiliated with the Government of Ajman for the purpose of sale, and goods purchased for resale, such as merchandise or other property held for resale.

Any government entity affiliated with the Government of Ajman can enable other parties to use its assets, for example, through investment or bank deposits. Therefore, the use of a government entity's assets by another party results in revenue in the form of:

1. Interest - fees for the use of cash or cash equivalents and amounts due to the government entity;
2. Royalties - fees for the use of the government entity's long-term assets;
3. Dividends - distributions of surpluses to holders of equity investments in proportion to their share of capital.

When distinguishing between revenue from exchange transactions and non-exchange transactions, the substance of the transaction, not its form, must be considered. A transaction is considered revenue from a non-exchange transaction if it does not meet all the mentioned conditions.

3. Provision of Services and Fees

3.1. Recognition of Revenue from Provision of Services and Fees

Revenue from services and fees arises from the provision of services by the government entity during the current period or over a period extending more than 12 months.

The government entity's services and fees include the following examples:

1. Commission fees;
2. Testing fees;
3. Document attestation fees; and
4. Advertising and publishing.

The government entity recognizes revenue from the provision of services by reference to the percentage of completion method or the completion of the transaction at the reporting date. This is done when the following conditions are met:

1. The amount of revenue can be measured reliably;
2. It is probable that the economic benefits or service potential associated with the transaction will flow to the government entity;
3. The stage of completion of the transaction at the reporting date can be measured reliably;
4. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable. When it becomes improbable that the costs incurred, which have been previously recognized as revenue (amounts receivable), will be recovered, those amounts are recognized as an expense.

Example: Recognition of Revenue from Provision of Services and Fees

Advertising fee income is recognized when the income is earned according to the terms of the contract.

On July 1, 2019, the Municipality signed a two-year contract with an advertising company for a total value of AED 200,000. The second party paid the amount upon signing the contract in exchange for an advertising permit in a specific area for two years.

Accordingly, the following is presented in the Municipality's financial statements:

Upon receipt of the amount

Description	Statement	Debit	Credit
Cash	Financial Position	200,000	
Revenue for the current year (July 1, 2019 - December 31, 2019)	Financial Performance		50,000
Deferred Revenue (Amount collected in advance - liability)	Financial Position		150,000

3.2. Measurement of Revenue from Provision of Services and Fees

The government entity measures revenue from services at the fair value of the consideration received or receivable. This is usually done using the percentage of completion method, by tracking the progress of the service and recognizing revenue in the periods in which the services are rendered.

The percentage of completion of the service can be determined by the following methods:

1. Surveys or evaluations of work performed;
2. The proportion of services performed to date compared to the total services to be performed;
3. The proportion of costs incurred to date to the estimated total costs of the service.

If the collection of receivables is deferred by granting the buyer payment facilities, resulting in a difference between the present value of future payments and the nominal value of cash received or receivable, the government entity must recognize the difference between the present value and the nominal value of the consideration as interest revenue.

When services are provided over a specified time frame, revenue is recognized on a straight-line basis, unless another method is required that more reliably represents the recognition of revenue. If the recognition of revenue from the provision of services requires the completion of a significant act at a specific time, revenue is recognized when that significant act is executed.

Example: Recognition of Revenue from Provision of Services using the Stage of Completion Method

The Department of Economic Development signed a contract with a private institution to provide inspection and examination services for 10 of the institution's warehouses and to issue a quality certificate for each. The contract began on September 1, 2019, with a total value of AED 600,000, to be collected upon issuance of the certificate. The estimated duration for inspection and examination is 6 months.

At the end of the fiscal year, the work completion assessment report showed that the department had completed the inspection and examination of 7 warehouses. Accordingly, the following entry was recorded:

Description	Statement	Debit	Credit
Accounts Receivable*	Financial Position	420,000	
Revenue	Financial Performance		420,000

* Calculated as follows: 7 x (600,000 / 10)

4. Sale of Goods

4.1. Recognition of Revenue from Sale of Goods

Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

1. The government entity has transferred the significant risks and rewards of ownership of the goods to the buyer;
2. The government entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
3. The amount of revenue can be measured reliably;
4. It is probable that the economic benefits or service potential associated with the transaction will flow to the government entity;
5. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

A transaction is not considered a sale and revenue is not recognized if the government entity retains significant risks and rewards of ownership. Below are some examples:

1. When the receipt of revenue from a sale transaction is contingent on the buyer deriving revenue from its sale of the goods (for example, when government publishing operations distribute educational materials to schools on a sale or return basis);
2. When goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity;
3. When the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

4.2. Measurement of Revenue from Sale of Goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable.

Example: Recognition and Measurement of Revenue from the Sale of Goods

The local police in Ajman sold scrap to a third party for AED 15,000.

Revenue from the sale of scrap should be recognized upon delivery of the scrap to the third party, as the local police in Ajman can reliably measure the revenue amount (AED 15,000), the significant risks and rewards of ownership have been transferred to the buyer, and the local police in Ajman have fulfilled all sale requirements.

An accounts receivable equal to the revenue amount should also be recognized until the cash is received from the third party:

Description	Statement	Debit	Credit
Accounts Receivable – Third Party	Financial Position	15,000	
Revenue from exchange transaction	Financial Performance		15,000

Upon receipt of cash:

Description	Statement	Debit	Credit
Cash - Bank Account	Financial Position	15,000	
Accounts Receivable – Third Party	Financial Position		15,000

5. Interest, Royalties, and Dividends

5.1. Recognition

Interest: The government entity recognizes interest on a time proportion basis that takes into account the effective yield on the financial asset. This includes, for example, interest received on bank deposits, interest from investments, and other interest.

Royalties: The government entity recognizes royalties (such as telecommunications company royalties) in accordance with the substance of the agreement.

Dividends: The government entity recognizes dividends and similar distributions when the entity's right to receive payment is established. The entity's right is established when the distributions are declared and approved by the board of directors. An accounts receivable and dividend revenue cannot be recognized if they have not been declared and approved before the date of the financial statements.

5.2. Measurement

Interest: The government entity measures interest using the effective interest rate method (refer to the "Financial Instruments" policy for more details on the effective interest rate).

Royalties: The government entity measures revenue from royalties based on the fair value of the consideration received or receivable when the revenue is due according to the terms of the agreement.

Dividends: The government entity measures revenue from dividends and similar distributions using the fair value of the consideration received or receivable when the revenue is due.

6. Exchange Transactions of Services or Goods with Other Parties

When goods or services are exchanged for goods or services of a similar nature and value, the exchange is not regarded as a transaction that generates revenue and is not recorded.

When goods or services are exchanged for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. The exchanged goods or services are recorded as expenses. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash transferred, if any.

7. Collection of Revenue as an Agent

Government entities ensure the substance of the transaction is considered, not merely its form. Revenue from exchange transactions includes only the gross inflows of economic benefits that accrue to the government entity. Therefore, amounts collected by the entity as an agent for another government entity or on behalf of other parties are not considered revenue from an exchange transaction for that entity. However, the government entity may recognize revenue from a commission received or receivable for the collection process, if any.

Example: Collection of Revenue as an Agent

The Department of Finance collects amounts for providing certain services as an agent for the Ajman Municipality. It transfers the collected amounts to the Municipality monthly (AED 10,000 was collected).

Accordingly, each entity records the following entries:

a. The collecting government entity (Department of Finance), the agent: It records the assets (cash) upon collection but does not record revenue. Instead, it records a credit balance to related parties until these collected amounts are transferred to the Ajman Municipality.

Upon cash collection:

Description	Statement	Debit	Credit
Cash / Bank Account	Financial Position	10,000	
Related Parties (Ajman Municipality)	Financial Position		10,000

Upon transferring cash to Ajman Municipality:

Description	Statement	Debit	Credit
Related Parties (Ajman Municipality)	Financial Position	10,000	
Cash / Bank Account	Financial Position		10,000

b. Ajman Municipality: The Municipality records revenue when it is earned and records a debit balance to related parties until it is collected.

Upon providing the service:

Description	Statement	Debit	Credit
Related Parties (Department of Finance)	Financial Position	10,000	
Revenue from exchange transaction	Financial Performance		10,000

Upon receiving cash from the agent:

Description	Statement	Debit	Credit
Cash	Financial Position	10,000	
Related Parties (Department of Finance)	Financial Position		10,000

8. Doubt Regarding the Collection of Recognized Revenue

A government entity recognizes revenue from exchange transactions only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. Where uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Example – Doubt Regarding the Collection of Recognized Revenue

In December, the Department of Municipality and Planning sold goods / provided a service to a private company for AED 100,000, with the amount to be collected on January 15.

Accordingly, the Department of Municipality and Planning recorded the following entry upon the sale of goods in December.

Description	Statement	Debit	Credit
Accounts Receivable	Financial Position	100,000	
Revenue from exchange transaction	Financial Performance		100,000

On December 31, upon preparing the financial statements, the government entity was informed that the private company is suffering from severe financial losses and is undergoing liquidation, making it unlikely that the outstanding amount will be collected.

Accordingly, the Department of Municipality and Planning does not reduce the previously recorded revenue but must record an expense as a result of this event.

Description	Statement	Debit	Credit
		100,000	

Description	Statement	Debit	Credit
Impairment of accounts receivable - expense	Financial Performance		
Allowance for doubtful accounts	Financial Position		100,000

9. Disclosures

The entity presents its revenues related to the sale of goods, provision of services, and revenues realized from interest, royalties, and dividends separately in the statement of financial performance under "Revenue from exchange transactions".

The government entity shall disclose in its financial statements the following:

1. The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
2. The amount of each significant category of revenue recognized during the period, including revenue arising from:
   - ✓ The rendering of services;
   - ✓ The sale of goods;
   - ✓ Interest;
   - ✓ Royalties;
   - ✓ Dividends or their equivalents.
3. The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Policy 15 - Revenue from Non-Exchange Transactions

Table of Contents for the Revenue from Non-Exchange Transactions Policy

1. Policy Objective

This policy aims to define revenue from non-exchange transactions and their related accounting treatments by specifying the requirements for recognizing revenue from these transactions and its measurement basis.

This policy primarily addresses the following topics:

1. Identifying transactions that give rise to revenue from non-exchange transactions;
2. Basis for recognition and measurement of revenue from taxes;

3. Types of transfers and the basis for recognition and measurement of revenue arising from them.

2. Scope

This policy deals with revenue arising from non-exchange transactions. These transactions may include, but are not limited to, the following:

1. Taxes;
2. Transfers:
    - ✓ Cash and in-kind contributions;
    - ✓ Fines;
    - ✓ Grants and donations.

3. Identifying Non-Exchange Transactions

Some transactions in government entities result in the collection of resources where the concerned entity provides no consideration or provides only nominal consideration in return. For example, taxes. Revenue from taxes is considered revenue from non-exchange transactions. A government entity recognizes revenue from taxes when the taxable events occur and the asset recognition criteria are met.

The substance and conditions of the transaction must be examined to determine whether it is of an exchange or non-exchange type. For example, the sale of goods is usually classified as an exchange transaction. However, if the transaction is conducted at a subsidized price, i.e., a price not approximately equal to the fair value of the goods sold, this transaction may fall within the definition of a non-exchange transaction. Professional judgment is used to determine whether the substance of a particular transaction is that of an exchange or non-exchange transaction.

Non-exchange transactions also arise if a government entity affiliated with the Government of Ajman provides certain consideration for the resources received, but that consideration is not approximately equal to the fair value of the resources received. In these cases, the government entity determines whether there is a combination of exchange and non-exchange transactions, where each component is recognized separately. The exchange component is recognized, and the non-exchange component is recognized according to the principles and requirements of this policy. Professional judgment must be used in determining whether a transaction consists of identifiable exchange and non-exchange components.

If it is not possible to distinguish between the exchange and non-exchange components in a particular transaction, the transaction is treated as a non-exchange transaction.

4. Taxes

Taxes meet the definition of "non-exchange transactions" because the taxpayer transfers resources to the government without directly receiving approximately equal value in return. Although the taxpayer may benefit from a range of social services provided by government entities, these services are not provided in exchange for the taxes collected.

4.1. Recognition of Revenue from Taxes

The government entity recognizes revenue from taxes and the resulting assets when the taxable events occur and the asset recognition criteria are met.

Revenue is recorded when the resources arising from taxes meet the definition of an asset. The government entity recognizes revenue from taxes and the asset when the following conditions are met:

1. The government entity controls the resources as a result of a taxable event;
2. The entity expects to obtain future economic benefits or future service potential from those resources;
3. The entity can reliably measure the fair value of the inflow of resources.

4.1.1. Taxable Events

The government entity recognizes revenue from taxes and the resulting asset when a taxable event occurs and the asset recognition criteria are met. A taxable event arises when the conditions related to paying a tax are met or a transaction is carried out that leads to the payment of taxes by the taxpayer who conducted the transaction.

Common examples of taxable events include:

1. Income tax is the earning of assessable income during the taxation period by the taxpayer;
2. Value-added tax (VAT) is the undertaking of a taxable activity during the taxation period by the taxpayer;
3. Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
4. Customs duty is the movement of dutiable goods or services across the customs frontier.

4.1.2. Advance Tax Receipts

The government entity recognizes resources for taxes received before the taxable event occurs as an asset and a liability (amounts received in advance) because the event that created the entity's right to the taxes has not occurred, and the criteria for recognizing tax revenue have not been met, even though the entity has received an inflow of resources.

Amounts received in advance for taxes, if any, are not fundamentally different from other amounts received in advance. Therefore, a liability is recognized until the taxable event occurs. When the taxable event occurs, the liability is satisfied, and revenue is recognized.

4.2. Measurement of Revenue from Taxes

The government entity measures revenue that meets the recognition criteria mentioned above at the fair value of the asset arising from the transaction on the date the taxable event occurs.

5. Transfers

5.1. Definition of Transfers

Transfers meet the definition of non-exchange transactions, where the recipient government entity receives cash or assets without giving approximately equal value in return. If there is an agreement stating that the recipient government entity will give approximately equal value in return, the agreement becomes a contract for an exchange transaction that should be accounted for under Policy 1 "Revenue from Exchange Transactions".

A government entity recognizes an asset arising from a transfer when the transferred resources meet the definition of an asset and satisfy the related recognition criteria. The transferred asset can take one of the following forms, without limitation:

1. Contributions from entities not affiliated with the Ajman Department of Finance (cash transfer);
2. In-kind contributions from other governments or other international bodies, which may include the provision of services, goods, and fixed assets without charge;
3. Other transfers.

Transfers that meet the definition of "contributions from owners" do not result in the recognition of revenue. A transaction is considered a contribution from owners if one of the following two conditions is met:

1. When the transfer agreement specifies that the transferring entity is entitled to distributions of future economic benefits or future service potential during the life of the recipient entity or a distribution of any surplus of net assets in the event of the recipient entity's liquidation;
2. When the transfer agreement specifies that the entity providing the resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, then the agreement is, in substance, an agreement for granting contributions from owners.

5.2. Recognition of Assets from Transfers

The government entity recognizes an inflow of resources from a non-exchange transaction as an asset when it meets the following conditions:

1. The government entity controls the asset resulting from the non-exchange transaction, as a result of past events;
2. It is probable that the future economic benefits or future service potential associated with the asset will flow to the government entity;
3. The fair value of the asset can be measured reliably.

Control of an Asset

Control of an asset arises when the government entity has the ability to prevent or regulate access by others to the benefits of the asset.

An announcement of an intention to transfer resources to a government entity is not sufficient for that entity to gain control over the transferred resources. Control over a transferred asset in this case requires a binding transfer agreement. If the recipient entity does not have an enforceable claim regarding the resources to be transferred, it cannot control the asset and compel the transferring entity to transfer those resources.

Past Events

A past event that leads to control over a specific asset results from a purchase or the occurrence of a transfer. Accordingly, transactions or events that are expected to occur in the future do not lead to the recognition of assets, unless there is an enforceable claim related to the resources to be transferred.

Inflow of Future Economic Benefits or Future Service Potential

An inflow of resources is probable when the likelihood of it occurring is greater than the likelihood of it not occurring.

The government entity determines the probability of the resource transfer based on its past experience with similar transfer transactions and its expectations of the transferring entity. For example, a resource transfer is considered probable, even if the actual transfer of resources to the concerned entity has not occurred by the financial reporting date, if the following conditions are met:

1. The transferring entity has announced its intention to transfer resources to the specified government entity;
2. The agreement is binding;
3. Based on past experience, the transferring government entity usually carries out the actual transfer of the agreed-upon resources.

5.2.1. Measurement of Assets from Transfers

An asset acquired through a non-exchange transaction is measured at its fair value as at the date of acquisition, i.e., the transfer to the beneficiary entity.

5.3. Recognition of Revenue from Transfers

5.3.1. Recognition of Revenue from Non-Exchange Transactions

The government entity recognizes an inflow of resources from non-exchange transactions as an asset and records it as revenue from non-exchange transactions, unless a liability must be recognized in respect of the same inflow (see Section 5.4 below).

When the government entity satisfies a condition attached to a liability, it is recognized as revenue as a result of an inflow of resources from a non-exchange transaction. The government entity reduces the carrying amount of the recognized liability and recognizes an amount of revenue from non-exchange transactions equal to that reduction.

If the inflow falls within the definition of contributions from owners, it is not recognized as a liability or revenue.

5.3.2. Measurement of Revenue from Non-Exchange Transactions

The government entity measures revenue from non-exchange transactions based on the increase in net assets recognized.

When a government entity recognizes an asset arising from a non-exchange transaction, it also recognizes revenue from a non-exchange transaction equal to the value of the asset (fair value at the date of acquisition), unless a liability must be recognized due to certain conditions on the use of the transferred asset.

5.4. Recognition of Liabilities from Transfers

5.4.1. Recognition of Liabilities from Non-Exchange Transactions

A present contractual obligation arises from the conditional provisions that may be included in non-exchange transactions. It may also arise from the normal operating environment, such as the recognition of receipts received in advance.

Upon recognizing an asset (as mentioned in Section 5.2 above), the government entity recognizes a liability arising from a present contractual obligation from a non-exchange transaction when the following conditions are met:

1. It is probable that the entity will have an outflow of future economic benefits or future service potential to settle the contractual obligation;
2. A reliable estimate can be made of the amount of the contractual obligation.

Stipulations

Assets may be transferred to a specific government entity with stipulations that specify how the asset is to be used or control how it is to be disposed of. Stipulations usually require the government entity to which the asset was transferred to use or consume the future economic benefits or future service potential embodied in an asset for a specific purpose (performance obligation) upon initial recognition.

Stipulations are not considered enforceable if they are not provided for in laws, regulations, or binding arrangements or agreements.

Stipulations related to a transferred asset can be either:

- A condition; or
- A restriction.

Conditions Imposed on Transferred Assets	Restrictions Imposed on Transferred Assets
Conditions imposed on transferred assets require that the recipient government entity: a. Either consume the future economic benefits or future service potential of the asset as specified; b. Or return the future economic benefits or future service potential to any government body affiliated with the transferring Government of Ajman if the conditions are breached.	Restrictions imposed on transferred assets do not require the government entity to return the transferred asset or its future economic benefits or future service potential to the transferor if the asset is not used as specified. Therefore, gaining control of an asset subject to a restriction does not impose a present contractual obligation on the recipient government entity. However, when the recipient government entity breaches a restriction, it may result in the imposition of a penalty on the concerned entity (refer to the "Provisions, Contingent Liabilities and Contingent Assets" policy).

In determining whether a stipulation is a condition or a restriction, it is necessary to consider the substance of the stipulation and not merely its form. The situations mentioned below are examples of favoring substance over form:

1. When determining whether a stipulation is a condition or a restriction, the recipient government entity affiliated with the Government of Ajman must consider whether the requirement to return the asset or its future economic benefits or other future service potential is enforceable and can be enforced by the transferor.
2. If the transferor is unable to impose or demand the return of the asset or its future economic benefits or other future service potential, and it is proven that the conditions are unenforceable, then the stipulation will be considered a restriction.
3. If past experience with the transferor indicates that this entity does not enforce the return of the transferred asset or its future economic benefits or other future service potential upon breach by the recipient, the recipient government entity may conclude that the stipulation has the form of a condition but its substance represents a restriction, and therefore it is considered a restriction.
4. If the recipient government entity has no experience with the transferor, making it unable to ascertain that the transferor will not resort to the

provisions concerning asset recovery, and has no evidence to the contrary, the recipient entity will assume that the transferor will enforce the stipulation, and thus the stipulation meets the definition of a condition.

5.5. Measurement of Liabilities from Non-Exchange Transactions

The government entity measures a liability arising from a non-exchange transaction based on the best estimate of the amount required to settle the present contractual obligation at the reporting date.

When a liability is recognized and will be recorded for a long period, this may affect the time value of money and make it significant. Accordingly, the liability is measured at the present value of the amounts expected to be paid in the future. This present value is determined by reference to the "Provisions, Contingent Liabilities and Contingent Assets" policy.

6. Other Transfers

6.1. Forgiveness of Debts and Liabilities

Revenue from the forgiveness of debt arises when creditors (lenders or creditors) waive their right to collect a debt from a government entity, which effectively results in the cancellation of the liability. Accordingly, the government entity affiliated with the Government of Ajman recognizes revenue from a non-exchange transaction as a result of the derecognition of the liability.

The government entity recognizes an increase in net assets, not a recognition of revenue from a non-exchange transaction, if the debt forgiveness meets the definition of a contribution from owners.

Revenue arising from the forgiveness of debt is measured at the fair value of the debt forgiven, and usually, the amount of revenue recorded is the amount of the forgiven debt.

Example: Forgiveness of Debts

The Central Bank of the UAE has forgiven the Department of Ports and Customs from repaying the outstanding balance on a loan. The carrying value of the loan on the date the forgiveness decision was issued is AED 1.5 million.

The Central Bank confirmed the balance recorded in the books of the Department of Ports and Customs and the forgiveness decision through an official letter addressed to the Department of Finance.

Accordingly, the Department of Ports and Customs records the transaction as follows:

Description	Statement	Debit	Credit
Liability: Loan from Central Bank	Financial Position	1,500,000	
Revenue from non-exchange transaction	Financial Performance		1,500,000

6.2. Fines and Penalties

Fines represent economic benefits or future service potential received or receivable by the government entity based on decisions determined by a court or other law enforcement body as a result of an individual or entity violating laws or regulations. Accordingly, the government entity recognizes fines when they are due as revenue and as accounts receivable when the receivable amount meets the definition of an asset and its recognition criteria as an asset, as explained in Section 5.2.1 - Recognition of Assets from Transfers.

To record revenue and accounts receivable from fines and penalties, the government entity ensures that the following conditions are met:

1. The government entity collects the amount as the authorized body for collection and follow-up, not as an agent;
2. The violation occurred as a result of a past event;
3. It is probable that the future economic benefits or future service potential associated with the asset will flow to the government entity;
4. The value of the revenue and accounts receivable can be reliably estimated.

The government entity measures the revenue and accounts receivable arising from fines and penalties at the best estimate of the inflow of resources.

Example: Fines

The Department of Municipality and Planning issued a fine to a health center for non-compliance with regulations issued by the government. The violation was issued on December 15, 2018, for an amount of AED 20,000.

December 31 is the closing date of the fiscal year and the preparation of financial statements.

Accordingly, the Department of Municipality and Planning records the transaction on December 15 as follows:

Description	Statement	Debit	Credit
Accounts Receivable - Fines	Financial Position	20,000	
Revenue from non-exchange transaction	Financial Performance		20,000

6.3. Bequests

A transfer from an estate is the transfer of assets in accordance with the provisions of a deceased person's will, which stipulates the transfer of assets to a specific government entity.

The concerned government entity recognizes assets and revenues from bequests when the following conditions are met:

1. It is probable that future economic benefits or future service potential will flow to the entity;
2. The fair value of the assets can be measured reliably.
3. In case the will is contested, this may affect the probability of the flow of assets to the entity.

The fair value of assets transferred from bequests is determined by their fair value as at the date of acquisition, which can be verified by reference to an active market or through an appraisal conducted by a member of the valuation profession who holds a recognized professional qualification. Usually, the fair value of many assets is easily verified by reference to quoted prices in an active market.

6.4. Gifts and Donations

Gifts and donations are voluntary transfers of assets by other parties (which may include a subsidiary government entity, another government entity, an international body, an entity, or an individual). Gifts and donations may include:

1. Cash and other monetary assets;
2. Goods in kind;

3. Assets (such as property and equipment).

The past event leading to control over the transferred resources is the receipt of the gift or donation, which is usually free of any conditional clauses. The government entity recognizes the assets and revenue related to gifts and donations upon meeting the following conditions:

1. It is probable that future economic benefits or expected future services will flow to the entity;
2. The fair value of the assets can be measured reliably.

The fair value of assets transferred from gifts and donations is determined by their fair value as of the acquisition date, which can be verified by referring to an active market or through valuation as shown in Section 6.3 above.

Example: Unconditional Donation

On December 15, a private company donated 5 used cars to the Human Resources Department without specifying any special conditions regarding their use. The Human Resources Department began using the transferred cars starting from February 10, noting that the car registration procedures with the Roads Authority were completed on January 20.

The Human Resources Department valued the cars by referring to an active market, where three suppliers of the same type of transferred cars were contacted and prices were requested based on the same specifications. The quotes obtained from the suppliers showed no significant price variation, and the cars were valued at AED 250,000.

On this basis, the Human Resources Department records the transaction as follows:

The Human Resources Department must record the assets and revenue upon acquisition as a result of the asset transfer, i.e., on December 15 (it must be confirmed that a binding agreement exists on December 15; otherwise, the assets are recognized upon legal acquisition of the cars, on January 20).

Description	Statement	Debit	Credit
Property, plant, and equipment – Cars	Financial Position	250,000	
Revenue from a non-exchange transaction - Donations	Financial Performance		250,000

6.5. In-Kind Services

In-kind services include services provided by other parties (which may include a subsidiary government entity, another government entity, an international entity, an entity, or an individual), and may include the following, but are not limited to:

1. Technical assistance from other governments or international organizations;
2. Government entities may receive services from volunteers;
3. Government schools may receive volunteer services from parents as teacher assistants or as members of the board of directors.

In-kind services are not recognized as assets and revenue from non-exchange transactions, particularly due to the inability to confirm that the relevant government entity has obtained control over the services and to reliably measure the fair value of these services.

However, the government entity makes disclosures related to in-kind services in these cases:

1. If the value of the services is significant;
2. When the services provided by volunteers are considered insignificant in terms of value but are significant in nature.

6.6. Concessionary Loans

Concessionary loans are loans received by the government entity at interest rates considered lower than market rates or without an interest rate. The portion of the loan to be repaid, in addition to interest payments, if any, is considered an exchange transaction and is accounted for according to the "Financial Instruments" policy, while the difference between the interest calculated based on the loan's applicable interest rate and the market interest rate for similar loans is treated as revenue from a non-exchange transaction, which should be accounted for according to this policy.

The government entity determines the difference between the interest calculated based on the loan's applicable interest rate and the market interest rate for similar loans upon initial recognition of the loan. This difference is recognized as revenue from a non-exchange transaction unless a present obligation (condition) exists.

Example: Determining the Non-Exchange Revenue Portion of a Concessionary Loan

In the current year, the Department of Finance received a concessionary loan (interest-free) from the Central Bank of the United Arab Emirates amounting to AED 500 million to develop the infrastructure in the city of Ajman over the next four years.

It was agreed to repay the loan value over the next five years as follows:

End of Year 1	10%
End of Year 2	20%
End of Year 3	30%
End of Year 4	40%

Currently, similar loans are traded in the financial markets at an interest rate of 5%.

Based on this information, the Department of Finance records the transaction as follows:

1. Determine the difference between the interest calculated based on the loan's applicable interest rate and the market interest rate

for similar loans: According to the "Financial Instruments" policy, the fair present value of the future cash flows related to the loan is calculated, which amounts to AED 432,438,130. On this basis, the difference of AED 67,561,870 is considered revenue from non-exchange transactions.

-2. Upon entering the agreement, initial recognition of the cash received from the Central Bank, the loan, and the revenue related to the non-exchange part of the transaction:

Description	**Statement**	**Debit**	**Credit**
Cash - Bank	Financial Position	500,000,000	
Loan	Financial Position		432,438,130
Revenue from a non-exchange transaction	Financial Performance		67,561,870

7. Disclosures

The government entity shall disclose the following information:

1. The amount of revenue from non-exchange transactions recognized during the period by major categories, showing separately the following:
   - Taxes, showing the main categories of taxes separately;
   - Transfers, showing the main categories of transfer revenue.
2. The amount of receivables recognized in respect of non-exchange revenue;
3. The amount of liabilities recognized in respect of transferred assets subject to conditions;
4. The amount of liabilities recognized in respect of concessionary loans that are subject to conditions;
5. The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
6. The amount of receipts received in advance related to a non-exchange transaction;
7. The amount of any forgiven liabilities.

Within the summary of policies followed, the government entity shall disclose the following information:

1. The accounting policies adopted for the recognition of revenue from non-exchange transactions;
2. The basis on which the fair value of inflowing resources is measured in respect of the major categories of revenue from non-exchange transactions;
3. Information about the nature of the tax in respect of the major categories of tax revenue that the government entity cannot measure reliably during the period in which the taxable event occurs;
4. The nature and type of the main categories of bequests, gifts, and donations, showing separately the main categories of in-kind goods received.

The government entity shall disclose the in-kind services received in these cases:

If the value of the in-kind services received is significant;

If the services provided by volunteers are considered significant by their nature, for the purpose of identifying the government entity's reliance on a specific category of in-kind services.

Accounting Policies Guide

Chapter Six – General Accounting Principles and Basis for Preparation of Financial Statements

Chapter Contents

Overview of General Accounting Principles and Basis for Preparation of Government Financial Statements

This chapter includes the accounting policies that the government entity must follow to ensure the preparation of high-quality financial statements and the presentation of transactions and events with the highest degree of transparency and accountability.

This chapter includes policies related to determining the basis for the preparation and fair presentation of the government entity's financial statements by addressing the following main topics:

1. Guidance for the government entity when applying the policies for the first time with respect to the following:
    - Recognition, measurement, presentation, and disclosure requirements in the financial statements;
    - Permitted exemptions during the period of applying accrual accounting policies;
2. Determining controls for the selection and change of accounting policies followed by the government entity in order to enhance the relevance and reliability of the financial statements and improve the comparability of those statements over time;
3. Determining the accounting treatment resulting from any changes in estimates for certain items or any errors, and determining their impact on the government entity's financial statements and on comparative information;
4. An explanation of the components and structure of financial statements and determining the presentation and disclosure requirements that must be present in the government entity's financial statements, in addition to defining their qualitative characteristics;

5. Addressing the basis for presenting cash flows through the statement of cash flows and how to classify cash flows based on their source into operating, investing, or financing activities;
6. Evaluating events that occur to the government entity after the financial statements preparation date and determining whether those events are adjusting or non-adjusting events for the financial statements, and disclosing relevant information that would enhance the transparency and validity of the financial statements;
7. Determining disclosure requirements for related parties to facilitate a better understanding of the statement of financial position and the statement of financial performance of the government entity and to know the types of transactions that occur between the government entity and related parties;
8. Determining the presentation and disclosure requirements in the financial statements regarding the budget information of the government entity that makes its budget available to the public, where the government entity must present a reconciliation between the budget and the actual amounts included in the financial statements and disclose material differences so that the government entity fulfills its accountability duties and enhances the transparency of its financial data.

Definitions

Term	**Definition**
Events After the Reporting Date	Are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue, even if these events occur after: 1. The announcement of the net surplus or deficit; 2. The approval of the financial statements of a controlled entity; 3. The publication of any other information relevant to the financial statements.

Term	Definition
	These events can be distinguished based on the following two types: 1. Events that provide evidence of conditions that existed at the reporting date (events for which the government entity must adjust the financial statements when they occur, even after the reporting date); 2. Events that are indicative of conditions that arose after the reporting date (events for which the government entity does not adjust the financial statements when they occur, even after the reporting date).
Prior Period Errors	Are omissions from, and misstatements in, the government entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: 1. Was available when financial statements for those periods were authorized for issue; and 2. Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
Management	Means the management of the government entity, unless otherwise specified.
Budget Basis	Means the accounting basis adopted in the approved budget.
Comparable Basis	

Term	Definition
	Means the actual amounts presented on an accounting basis and classification basis similar to that of the same government entity and for the period of the approved budget.
Accrual Basis	Is the accounting basis under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.
Previous Accounting Basis	Is any accounting basis that the government entity used in preparing its financial statements before applying the accrual basis. It could be: 1. Cash basis; or 2. Modified cash basis; or 3. Modified accrual basis; or 4. Any other basis.
Assets	Are resources controlled by the government entity as a result of past events and from which future economic benefits or service potential are expected to flow to the government entity.
Related Parties	Two government entities are considered related parties if one (a) has the ability to control the other party (b) has significant influence over the other party in making financial or operating decisions, or if both government entities are

Term	Definition
	subject to common control. Related parties include the following: 1. Government entities that directly or indirectly control, or are controlled by, another government entity; 2. Associate government entities (see policy "Investments in Associates and Joint Ventures"); 3. Key management personnel and their close family members; 4. Private institutions in which any of these persons have a significant ownership interest, directly or indirectly, or in which such persons are able to exercise significant influence.
Affecting Exemptions	Are exemptions that affect the fair presentation of the financial statements and the ability of the first-time adopter to assert full compliance with the policies.
Non-Affecting Exemptions	Are exemptions that do not affect the fair presentation of the financial statements nor the ability of the first-time adopter to assert full compliance with the policies.
Close family members	Are the direct relatives of a particular person, or immediate family members who are expected to have an influence on that person or be influenced by them in their dealings with the entity.
Liabilities	Are present obligations of the government entity arising from past events, the settlement of which is expected to result in an outflow from the government entity of resources embodying economic benefits or service potential.
Investing Activities	

Term	Definition
	Are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
Operating Activities	Are the activities of the government entity that are not investing or financing activities.
Financing Activities	Are activities that result in changes in the size and composition of the contributed capital and borrowings.
Materiality	Omissions or misstatements of items are material if they 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. Assessing whether an omission or misstatement could influence users' decisions, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of government, economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.
First financial statements compliant with the requirements of Ajman government	Are the first financial statements in which the government entity fully complies with the recognition, measurement, presentation, and disclosure requirements stated in the policies, such that these financial statements contain an

Term	Definition
accrual accounting policies	explicit and unreserved statement of full compliance with the policies.
Revenue	Is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity.
Notes	Are information presented in the financial statements in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets, and statement of cash flows. This information provides descriptive explanations or disaggregations of items disclosed in those financial statements and information about items that do not qualify for recognition in those statements.
Opening Statement of Financial Position	Is the statement of financial position at the date of adoption of the policies.
Transitional Financial Statements	Are the financial statements in which the government entity begins to apply the policies, but which do not contain an explicit and unreserved statement of full compliance with this policy due to the use of one or more of the affecting exemptions permitted during the transitional periods, which affect the fair presentation of the financial statements in accordance with the accrual principle.
Significant Influence	Is the power to participate in the financial and operating policy decisions of a specific government entity, but is not control over those policies. Significant influence may be exercised in several ways, often through representation on the board of directors or an equivalent governing

Term	Definition
	body, and can also be exercised through participation in: 1. The policy-making process; 2. Material transactions between government entities; 3. Interchange of managerial personnel; 4. Dependence on technical information. Significant influence may be gained by ownership interest or by statute or agreement providing for it.
Date of Adoption	Is the date on which the government entity applies the policies for the first time, beginning from the start of the reporting period (fiscal year) during which the government entity adopts this policy, at the end of which it presents either: 1. Its financial statements in a manner that fully complies with the policies; or 2. Transitional financial statements (aiming for full compliance with the policies by the end of the transitional period).
Appropriation	Is an authorization granted by the legislature to allocate funds for specific purposes.
Cash Flows	Are inflows and outflows of cash and cash equivalents.
Retrospective Application	Is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
Prospective Application	Is applying a new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed, and recognizing the effect of the

Term	Definition
	change in the accounting estimate in the current and future periods affected by the change, affecting the current and future financial statements.
Retrospective Restatement	Is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.
Change in Accounting Estimate	Is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.
Deemed Cost	Is an amount used as a surrogate for the acquisition cost or amortized cost at a given date.
Distributions to Owners	Means future economic benefits or service potential distributed by the government entity to all or some of its owners, either as a return on investment or as a return of investment.
First-time Adopter	Is a government entity that is applying the policies for the first time.
Normal Operating Cycle	The operating cycle of a government entity is defined as the time it takes to convert inputs or resources into outputs. It is assumed to be 12 months in cases where it is not clearly identifiable.
Control	Means overseeing the activities of the government entity by controlling or exercising

Term	Definition
	significant influence over the financial and operating decisions of the government entity.
Accounting Policies	Are the specific principles, bases, conventions, rules and practices adopted by the government entity in preparing and presenting its financial statements.
Net Assets/Equity	Is the residual interest in the assets of the government entity after deducting all its liabilities in the statement of financial position, and it may be negative or positive.
Impracticability	Applying a requirement is impracticable when the government entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if: 1. The effects of the retrospective application or retrospective restatement are not determinable; 2. The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or 3. The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that: ✓ provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and

Term	Definition
	✓ would have been available when the financial statements for that prior period were authorized for issue.
Related Party Transactions	Is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other government entity that is considered a related party only because it is economically dependent on the government entity preparing the financial statements under this policy or the government of which it is a part.
Transitional Period	Is the period during which the government entity takes advantage of one or more of the transitional exemptions before fully complying with the requirements of the policies.
Economic Entity/ Group	Is a group of government entities that consists of a controlling government entity and one or more controlled government entities.
Actual Amounts	Represents a description of the amounts resulting from the execution of the budget.
Contributions from Owners	Means future economic benefits or service potential contributed to the government entity by parties external to the government entity, other than those that result in liabilities of the government entity, which establishes a financial interest in the net assets/equity of the government entity which: 1. Conveys entitlement to both distributions of future economic benefits or service potential by the government entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any

Term	Definition
	excess of assets over liabilities in the event of the government entity being wound up; and/or 2. Can be sold, exchanged, transferred, or redeemed.
Expenses	Are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.
Compensation of Key Management Personnel	Is any consideration or benefit received by key management personnel directly or indirectly from the government entity for services rendered in their capacity as persons with authority and responsibility for planning, directing, and controlling the government entity or as employees of the government entity.
Future Economic Benefits or Service Potential	Assets provide a means for government entities to achieve their objectives, and are divided into: 1. Assets whose use indirectly generates net cash inflows and are described as having "service potential"; and 2. Assets whose use directly generates net cash inflows and are described as having "future economic benefits".
Key Management Personnel	1. All executive directors and responsible members of the government entity, including the senior management group, including the executive director or permanent head of the government entity;

Term	Definition
	2. Any other persons having authority and responsibility for planning, directing and controlling the activities of the government entity. These persons include: ✓ a member of the government entity at the government level, who has the authority and responsibility for planning, directing, and controlling the activities of the government entity; and ✓ any of the key advisors to that member.
Budget	Represents the estimates that management builds and through which it shows the volume of cash flows expected to be used or disbursed during a specific period and the volume of cash flows expected to be generated during the same period. The term "Budget" in this policy has the same meaning as "Budget".
Original Budget	Is the initial approved budget for the budget period.
Annual Budget	Means the approved budget for one year. It does not include any publicly available future estimates or forecasts for periods beyond the budget period.
Approved Budget	Means the spending authority derived from laws, appropriation bills, government legislation, and other decisions related to expected revenues or receipts for the budget period.
Final Budget	Is the original budget adjusted for all reserves, carry-forwards, transfers, supplementary allocations, and other legislative changes approved and applicable to the budget period or similar official changes.

Term	Definition
Multi-year Budget	Is a budget approved for more than one year. It does not include publicly available future estimates or forecasts for periods beyond the budget period.
Cash	Includes cash on hand and cash in bank.
Cash Equivalents	Includes highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, with a maturity of 3 months or less.
Management/ Management in the Government Entity	Reference to management in this guide is to the management responsible for the financial operations of the government entity.

Policy 16 – First-time Adoption of Accounting Policies

Table of Contents for the Policy on First-time Adoption of Accounting Policies

1. Objective of the Policy

The objective of this policy is to provide guidance to a first-time adopter preparing its financial statements upon adopting the policies for the first time, to enable the presentation of high-quality information in its financial statements. This information must be characterized by the following:

1. Transparency regarding the transition of the first-time adopting government entity to the accrual basis in accordance with the policies; and
2. Serving as a starting point for accrual-based accounting in accordance with the policies, regardless of the accounting framework

that was applied in the government entity before the date of adoption; and
3. That the benefit from this information exceeds the cost of its preparation.

This policy primarily addresses the following topics:

1. Defining the presentation requirements for the first financial statements of the first-time adopter in compliance with the requirements of the Ajman government accrual accounting policies;
2. Defining the transitional exemptions regarding recognition and measurement that the first-time adopter can benefit from during the transition phase to the accrual basis according to the Ajman government accounting policies, which are divided into:
    - ✓ Exemptions that affect fair presentation and compliance with accounting policies during the transitional period;
    - ✓ Exemptions that do not affect fair presentation and compliance with accounting policies during the period of applying the Ajman government accounting policies.

Defining the disclosure requirements that the first-time adopter must address in its financial statements prepared in accordance with this policy.

2. Scope

This policy applies to the government entities covered and detailed in the introduction of the guide.

The government entity must apply this policy during its transition to the accounting policies, whether it chooses a gradual transition or to adopt the policies fully in the first year.

This policy does not apply when a first-time adopting government entity, for example:

1. Stops presenting financial statements in accordance with specific principles previously presented in addition to another set of financial statements that included an explicit and unreserved statement of compliance with the accounting policies; or
2. Presented financial statements in the previous period in accordance with specific principles, where those financial statements included an

explicit and unreserved statement of compliance with the accounting policies;
3. Presented financial statements in the previous period that included an explicit and unreserved statement of compliance with the accounting policies, even if the auditors modified their report on those financial statements.

This policy must be applied from the date the first-time adopting government entity begins to apply the Ajman government accounting policies, and during the transitional period. This policy allows government entities applying the Ajman government accounting policies for the first time to benefit from exemptions during the transitional period.

At the end of the transitional period, the first-time adopting government entity that benefited from the exemptions must fully comply with the recognition, measurement, presentation, and disclosure requirements in accordance with this policy.

This policy does not apply to changes in accounting policies made by a government entity that already applies the accounting policies, where these changes result from the following:

1. Requirements about changes in accounting policies in accordance with the "Accounting Policies, Changes in Accounting Estimates and Errors" policy; and
2. Specific transitional requirements in accordance with other government standards, which relate to changes in accounting policies made by government entities that already follow government standards. None of the transitional provisions apply to first-time adopters except for the transitional provisions addressed in this policy.

3. Financial Statements of a First-time Adopter

3.1. First Financial Statements Complying with the Requirements of this Policy

The financial statements that a government entity prepares for the first time on an accrual basis after the application date are considered the first financial statements compliant with the Ajman government accounting policies, provided no affecting exemptions are used. However, it is still possible to consider the government entity's financial statements as the first compliant financial statements if non-affecting exemptions mentioned in this policy are used.

3.2. Transitional Financial Statements Prepared in Accordance with this Policy

Transitional financial statements are those annual financial statements prepared by a first-time adopting government entity by taking advantage of some affecting exemptions that impact the fair presentation of the financial statements and the government entity's ability to fully apply the policies.

Transitional financial statements are those financial statements by which a government entity transitions from applying any other accounting basis to applying the Ajman government accounting policies, as in the following cases (for example):

1. The government entity presented its most recent previous financial statements as follows:
    - ✓ In accordance with specific principles that do not comply with the accounting policies in all respects;
    - ✓ In compliance with the accounting policies, but the financial statements did not include an explicit and unreserved statement of compliance with the accounting policies;
    - ✓ Included an explicit and unreserved statement of compliance with some but not all requirements of the accounting policies by taking advantage of affecting exemptions that impact the fair presentation of the financial statements and the entity's ability to fully apply the requirements of the accounting policies;
    - ✓ In accordance with specific principles not compliant with the accounting policies, but some individual accounting policies were used to account for items for which no specific principles were available; or
    - ✓ In accordance with specific principles, with a reconciliation of some amounts to the amounts determined in accordance with the Ajman government accrual accounting policies.

2. Prepared financial statements in accordance with the accounting policies for internal use only and not made available to external users;
3. Prepared a reporting package for the purpose of preparing consolidated financial statements but did not prepare the full set of financial statements as mentioned in the "Presentation of Financial Statements" policy; or
4. Did not present financial statements for previous periods.

The following diagram provides a simplified illustration of the first-time application of accounting policies in accordance with this policy:

Decision to adopt government accrual accounting policies for the first time

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The financial statements issued by the government entity after the adoption decision will be

First financial statements fully compliant with the requirements of the accounting policies	Transitional financial statements (for a maximum of 3 years from the date of adoption)
If	**If**
• None of the affecting exemptions mentioned in this policy were used • All recognition, measurement, presentation, and disclosure requirements stipulated in the accounting policies were applied	• Any of the affecting exemptions mentioned in this policy were used • All recognition, measurement, presentation, and disclosure requirements stipulated in the accounting policies were applied (except for the use of affecting exemptions)

When what was addressed in the transitional financial statements prepared according to government accrual accounting policies occurs

4. Recognition and Measurement

4.1. Opening Statement of Financial Position

A government entity applying the accounting policies for the first time must prepare an opening statement of financial position, which is the first step in accounting on an accrual basis in accordance with the Ajman Government's accrual accounting policies.

4.2. Accounting Policies

A first-time adopter must ensure that the accounting policies in its opening statement of financial position and throughout all presented periods are consistent. The accounting policies must comply with every policy that is effective at the date of adoption.

A first-time adopter must do the following with respect to its opening statement of financial position:

1. Recognize all assets and liabilities whose recognition is required by the accounting policies.
2. Not recognize items as assets or liabilities if the accounting policies do not permit such recognition.
3. For items that were recognized and classified under the previous basis of accounting as one type of asset, liability, or item of net assets/equity, the first-time adopter shall reclassify those items as their classification differs under the accounting policies.
4. Apply the accounting policies in measuring all recognized assets and liabilities.

The accounting policies used by a first-time adopter may differ from those it used at the end of the previous period under its previous basis of accounting, leading to certain adjustments. These adjustments arise from transactions, other events, or conditions that occurred before the date of adoption. Accordingly, the first-time adopter must recognize these adjustments in the opening balance of the accumulated surplus or deficit account in the current period (or, if appropriate, recognize the adjustments within any other item of net assets/equity).

4.3. Estimates

A first-time adopter's estimates at the date of adoption must be consistent with those estimates used when applying the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates conflict with the requirements of this guide.

A first-time adopter may receive information after the date of adoption about estimates it had made under the previous basis of accounting. Accordingly, the first-time adopter must treat such information as non-adjusting events after the reporting period in accordance with the "Events After the Reporting Date" policy.

A first-time adopter may need to make estimates in accordance with this guide at the date of adoption or during the transitional period that were not required to be made under the previous basis of accounting.

5. Fair Presentation and Compliance with Policies

The first financial statements prepared by a first-time adopter that comply with the accounting policies must present fairly the financial position, financial performance, and cash flows of the government entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in the Ajman Government accounting policies.

A government entity whose financial statements fully comply with the requirements of the accounting policies must ensure that the information is presented in a manner consistent with the qualitative characteristics described in the "Presentation of Financial Statements" policy. The financial statements cannot include an explicit and unreserved statement of full compliance with the requirements of the accounting policies until one of the following occurs (whichever occurs first):

1. The impactful exemptions expire; and/or
2. The related items are recognized and measured, and/or the relevant information is presented and disclosed in accordance with the accounting policies.

Example: Assessing the impact of availing an exemption on the fair presentation of financial statements and their compliance with accounting policies

The Municipality (a first-time adopter) decided to take the three-year exemption that allows it not to recognize and measure revenue from fines for delay in issuing or renewing work permits, due to the unavailability of reliable information on the value of fines issued, fines written off, or settlements reached with violators. Accordingly, this exemption period should not be applied to any other category of revenue from non-exchange transactions undertaken by the Municipality. The Municipality assessed the impact of availing the exemption and found that the value of the delay fines is not material to the financial statements as a whole. The Municipality concluded that despite adopting this exemption, in this case, taking it will not result in an impact on the fair presentation of the financial statements or on the Municipality's ability to assert compliance with this guide. As a result, it is able to achieve fair presentation in its financial statements and assert its compliance with the accounting policies despite availing the exemption as at the date of adoption or during the transitional period.

6. Exemptions during the Transitional Period (Three-Year Duration)

Impactful Exemptions
Nature of Exemptions 1. Affect the fair presentation of the financial statements; and

2. Do not allow the first financial statements of the first-time adopter to contain an explicit and unreserved statement of compliance with the accounting policies, and hence, when availed, they are called transitional financial statements.
Duration of Exemption A maximum period of three years starting from the date of adopting the accounting policies.

7. Impactful Exemptions: Affecting Fair Presentation and Compliance during the Adoption Period

A government entity may take the exemptions mentioned below, which may affect the fair presentation of the first-time adopter's financial statements. The first-time adopter should not apply these exemptions by analogy to other items.

7.1. Exemptions from Recognition and/or Measurement of Assets and/or Liabilities

When a first-time adopter does not recognize assets and/or liabilities in accordance with the previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for a period of up to three years from the date of adoption:

1. Inventory, see "Inventory" policy;
2. Investment property, see "Investment Property" policy;
3. Property, plant, and equipment, see "Property, Plant, and Equipment" policy;
4. Defined benefit plans and other long-term employee benefits, see "Employee Benefits" policy;
5. Biological assets and agricultural produce, see "Agriculture" policy;
6. Intangible assets, see "Intangible Assets" policy;
7. Assets and liabilities related to service concession arrangements, whether under the financial liability model or the grant of a right to the operator model, see "Service Concession Arrangements: Grantor" policy; and
8. Financial instruments, see "Financial Instruments" policy.

When a first-time adopter takes the exemption related to defined benefit plans and other long-term employee benefits, it must recognize the liability and any related plan assets at the same time.

7.2. Recognition and/or Measurement of Revenue from Non-Exchange Transactions

A first-time adopter is not required to change its accounting policies regarding the recognition and/or measurement of revenue from non-exchange transactions for periods beginning within three years of the date of adoption. The first-time adopter may gradually change its accounting policy regarding revenue from non-exchange transactions for different categories of revenue from non-exchange transactions.

7.3. Other Exemptions

7.3.1. "Borrowing Costs" Policy

When a first-time adopter avails the impactful exemptions, it is not required to capitalize borrowing costs on related assets for which the capitalization commencement date is before the date of adoption, until the exemption period expires and/or until the related assets are recognized and/or measured in accordance with the requirements of this guide (whichever occurs first).

7.3.2. "Leases" Policy

When a first-time adopter avails the impactful exemptions, it is not required to apply the requirements for finance leases until the exemption period expires and/or until the related assets are recognized in accordance with the requirements of this guide (whichever occurs first).

7.3.3. "Provisions, Contingent Liabilities and Contingent Assets" Policy

The "Property, Plant and Equipment" policy requires a government entity to include in the cost of an asset the costs of dismantling and removal. If a first-time adopter avails the impactful exemption that allows not recognizing the asset for a transitional period of up to three years, the first-time adopter is not required to recognize the assets and liabilities arising from dismantling and removal costs related to the same asset until the transitional period expires and/or the first-time adopter recognizes and/or measures the asset concerned in accordance with the requirements of the "Property, Plant and Equipment" policy (whichever occurs first).

7.3.4. "Related Party Disclosures" Policy

A first-time adopter is not required to disclose related party relationships, related party transactions, and information about key management personnel in reporting periods beginning on a date within three years of the date of adoption.

However, this policy encourages the first-time adopter to disclose related party relationships, related party transactions, and information about key management personnel if such information is available at the date of adoption.

7.3.5. "Separate Financial Statements" Policy

If a first-time adopter did not previously recognize its investments in subsidiaries, associates, and joint ventures, it is not required to recognize and/or measure those investments for reporting periods beginning on a date within three years of the date of adoption. This transitional period is intended to give the first-time adopter time to properly identify and classify its investments in other entities, either as controlled entities, associates, or joint ventures.

7.3.6. "Consolidated Financial Statements" Policy

A first-time adopter must present consolidated financial statements in the period following its adoption of the accounting policies. The first-time adopter is not required to make adjustment entries related to the elimination of all inter-entity balances, transactions, revenue, and expenses between subsidiaries of the economic entity for reporting periods beginning on a date within three years of the date of adoption, unless the information is clearly available at the date of adoption to comply fully with the requirements of the "Consolidated Financial Statements" policy.

When applying the accounting policies, a government entity may have controlled entities with a significant number of transactions between them. Accordingly, it may be difficult for the controlling government entity to identify these transactions to eliminate them for the purpose of preparing consolidated financial statements.

7.3.7. "Investments in Associates and Joint Ventures" Policy

When applying the Ajman Government accounting policies, a first-time adopter may have investments in one or more associates or joint ventures, and there may be a significant number of upstream and downstream transactions between the investor and its investments. Accordingly, it may be difficult for the first-time adopter to identify some of these upstream and/or downstream transactions, making it impossible for the investor to eliminate its share of the surplus or deficit when adopting the equity method. Therefore, the transitional period will help the first-time adopter (i.e., the investor) to have sufficient time (up to three years from the date of adoption) to fully eliminate its share of the surplus or deficit in associates or joint ventures resulting from upstream and/or downstream transactions.

8. Non-Impactful Exemptions: Do Not Affect Fair Presentation and Compliance with Policies during the Adoption Period

A government entity may take the exemptions mentioned below. These exemptions do not affect the fair presentation of the first-time adopter's financial statements, nor the ability of the first-time adopter to assert that its financial statements comply with the Ajman Government accounting policies during the transitional period. The first-time adopter should not apply these exemptions by analogy to other items.

8.1. Use of Deemed Cost for Measuring Assets and/or Liabilities

A first-time adopter may elect to measure the following assets and/or liabilities at fair value when reliable cost information for these assets and/

or liabilities is not available. The fair value is considered the deemed cost for any of the following:

1. Inventory;
2. Investment properties;
3. Property, plant, and equipment;
4. Intangible assets, except those that are internally generated, which meet the recognition criteria specified in this guide (except for the reliable measurement principle);
5. Financial instruments; or
6. Service concession assets.

Deemed cost can only be determined if information on the cost of acquiring the asset and/or incurring the liability is not available. The deemed cost assumes that the government entity had recognized the asset and/or liability at the specified date. Subsequent depreciation or amortization is based on the deemed cost of the asset, assuming the acquisition cost equals the deemed cost.

A first-time adopter may elect, in accordance with its previous basis of accounting, to use the revalued amount of property, plant, and equipment as deemed cost if the revaluation amount, at the date the revaluation was made, is broadly comparable to:

1. Fair value; or
2. Cost, or depreciated cost, where appropriate and consistent with the accounting policies, adjusted to reflect, for example, a change in a general or specific price index.

8.2. Use of Deemed Cost for Measuring Assets Acquired through Non-Exchange Transactions

A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its fair value if reliable information regarding the cost of the asset is not available, where deemed cost is used as the fair value.

8.3. Use of Deemed Cost for Investments in Subsidiaries, Joint Ventures, and Associates ("Separate Financial Statements" Policy)

When a first-time adopter measures an investment in a subsidiary, joint venture, or associate at cost in its separate financial statements, it may elect, at the date of adoption, to measure that investment at one of the following amounts in its opening separate statement of financial position:

1. Cost, or
2. Deemed cost, and the deemed cost of this investment is its fair value (determined in accordance with the "Financial Instruments" policy) at the date of adoption by the first-time adopter in its separate financial statements.

8.4. Date of Determining Deemed Cost

The date at which deemed cost is determined may differ depending on whether the first-time adopter has availed the transitional exemptions that exempt it from recognizing and measuring certain assets and/or liabilities for a period of three years from the date of adoption. When a first-time adopter avails this exemption, the deemed cost can be determined at any date during this transitional period, or at the date the exemption period ends (whichever occurs first) at which it must be recognized. If the first-time adopter does not avail this exemption, the deemed cost must be determined at the beginning of the earliest financial period presented in the first-time adopter's financial statements prepared in accordance with the policies.

When deemed cost is determined during the transitional period in which the first-time adopter avails the exemption that allows it not to recognize assets and liabilities for three years from the date of adoption, the first-time adopter must recognize the adjustment in the opening balance of the accumulated surplus or deficit account in the period in which the deemed cost of the asset and/or liability is recognized and/or measured.

8.5. Non-Impactful Exemptions Related to Policy Items

8.5.1. "Presentation of Financial Statements" Policy

A first-time adopter is not required to present comparative information in its transitional financial statements, or its first financial statements prepared in accordance with this policy. Therefore, these financial statements must include the following for one period only:

1. A statement of financial position, and an opening statement of financial position as at the date of adopting the government's accounting policies;
2. A statement of financial performance;
3. A statement of changes in net assets/equity;
4. A statement of cash flows;
5. A comparison of budget and actual amounts for the current period as an additional statement to the financial statements if the first-time adopter makes its budget publicly available; and
6. Related notes, with clear disclosure of information regarding material adjustments.

When a first-time adopter avails impactful exemptions that allow it not to recognize and/or measure a particular item during the three-year transitional period, the comparative information for the financial period following the date of adoption must be adjusted only when information about the items becomes available following the recognition and/or measurement of those items during the exemption period.

The policy on presentation of financial statements requires the government entity to present comparative information for the previous period for all amounts presented in the financial statements.

8.5.2. "The Effects of Changes in Foreign Exchange Rates" Policy

A first-time adopter is not required to comply with the requirements regarding cumulative translation differences that exist at the date of adopting the government's accounting policies. If a first-time adopter avails this exemption, then:

1. The cumulative translation differences for all foreign operations are deemed to be zero at the date of adoption; and
2. The gain or loss on the subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of adopting the government's accounting policies, but shall include translation differences arising thereafter.

8.5.3. "Borrowing Costs" Policy

When a first-time adopter applies or changes its accounting policy to comply with the core policies, it is permitted to select any date before the date of adopting the policies and then apply this guide prospectively from that chosen date or thereafter.

8.5.4. "Leases" Policy

A first-time adopter must classify all existing leases as either finance leases or operating leases, based on the circumstances existing at the inception of the lease, to the extent that this information is known at the date of adoption.

However, if the lessor and lessee agree to change the terms of the lease in the period between the inception of the lease and the date of adoption in a way that would have resulted in a different classification of the lease at the date of adoption, the modified lease should be treated as a new lease. The first-time adopter must take into account the terms of the new lease at the date of adoption for the purpose of classifying the lease as either an operating lease or a finance lease.

8.5.5. "Segment Reporting" Policy

A first-time adopter is not required to present segment information for reporting periods beginning on a date within three years after the date of adoption.

8.5.6. "Impairment of Non-Cash-Generating Assets" Policy

A first-time adopter must follow the requirements of the policy on impairment of non-cash-generating assets prospectively from the date of adoption, except for assets that the first-time adopter has chosen not to recognize and/or measure.

A first-time adopter must assess whether there is any indication of impairment of non-cash-generating assets recognized and/or measured in the statement of financial position. Impairment losses are recognized in the opening balance of the accumulated surplus or deficit account as at the date of adopting the policies, or in the opening balance of the accumulated surplus or deficit account in the financial period in which the transitional exemption period expires, and/or in the financial period during which the related assets are recognized and/or measured (whichever occurs first).

8.5.7. "Impairment of Cash-Generating Assets" Policy

A first-time adopter must follow the requirements of the policy on impairment of cash-generating assets prospectively from the date of adoption, except for assets that the first-time adopter has chosen not to recognize and/or measure, which allows for an exemption from recognition and/or measurement of assets during the three-year transitional period.

A first-time adopter must assess whether there is any indication of impairment of cash-generating assets recognized and/or measured in the statement of financial position. Impairment losses are recognized in the opening balance of the accumulated surplus or deficit account as at the date of adopting the policies, or in the opening balance of the accumulated surplus or deficit account in the financial period in which the transitional exemption period expires, and/or in the financial period during which the related assets are recognized and/or measured (whichever occurs first).

8.5.8. "Employee Benefits" Policy

A first-time adopter must recognize and/or measure all employee benefits at the date of adopting the government's accounting policies, except for defined benefit plans and other long-term employee benefits for which it may avail exemptions.

8.5.9. "Financial Instruments" Policy

A first-time adopter must, at the date of adopting the government's accounting policies, assess the components of financial instruments to determine whether they contain both a liability component and/or a net assets/equity component. If the liability component no longer exists at the date of adoption, the first-time adopter is not required to separate the compound financial instrument into a liability component and a net assets/ equity component as long as the liability component is no longer outstanding at the date of adoption.

8.5.10. Recognition and Measurement: Classification of Financial Instruments at the Date of Adoption or during the Transitional Period

A first-time adopter may classify a financial asset or financial liability at fair value through surplus or deficit that meets the designation criteria mentioned in the "Financial Instruments" policy. The first-time adopter must disclose the fair value of the financial assets and financial liabilities designated in each category as at the date of designation, as well as their classifications and carrying amounts.

This policy permits a financial asset to be classified at initial recognition as an available-for-sale financial asset or as a financial instrument (that meets certain conditions) at fair value through surplus or deficit. Despite this requirement, exceptions apply in the following cases:

1. A first-time adopter is permitted to designate an available-for-sale asset at the date of adopting the policies.
2. A first-time adopter is permitted, at the date of adopting the policies, to designate any financial asset or financial liability at fair value

through surplus or deficit, provided that the asset or liability complies with the relevant controls mentioned in the "Financial Instruments" policy as at that date.

8.5.11. Recognition and Measurement: Derecognition of Financial Assets and Liabilities

A first-time adopter must apply the derecognition requirements for financial assets and liabilities mentioned in the "Financial Instruments" policy prospectively for all transactions that occur on or after the date of adopting the policies, or when the first-time adopter avails exemptions that allow it not to recognize financial instruments until the exemption period expires or when the first-time adopter recognizes and/or measures the financial instruments (whichever occurs first). For example, if a first-time adopter derecognized a non-derivative financial asset or liability, in accordance with its previous basis of accounting as a result of a transaction that occurred before the date of adopting the policies, it is not required to recognize these assets and liabilities, unless they qualify for recognition as a result of a subsequent event or transaction.

8.5.12. Hedge Accounting (Please refer to the appendix of the "Financial Instruments" policy where applicable)

A first-time adopter must, at the date of adopting the policies or in the case of availing transitional exemptions that allow non-recognition and/or measurement of financial instruments for a period of up to three years (until the date the exemptions expire or until the date of recognition and/or measurement of the related financial instruments (whichever occurs first)), do the following:

1. Measure all derivatives at fair value; and
2. Eliminate all deferred gains and losses arising on derivatives that were presented under the previous basis of accounting as if they were assets or liabilities.

A first-time adopter should not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting, for example, several hedging relationships where the hedging instrument is a cash instrument or a written option, or where the hedged item (i.e., the item being hedged to cover it) is a net total position. However, if a first-time adopter designated a net total position as a hedged item in accordance with its previous basis of accounting, the first-time adopter is entitled to designate a single item within the net total position as a hedged item in accordance with the government's accounting policies, provided it does so before the date of adoption, and in the case of availing impactful exemptions, before the date the exemptions expire or when the related financial instrument is recognized and/or measured (whichever occurs first).

8.5.13. Impairment of Financial Assets

A first-time adopter must apply the impairment requirements prospectively from the date of adopting the policies.

A first-time adopter must, at the date of adoption, or at the earlier of (a) the date the exemptions expire, or (b) the date of recognition and/or measurement of the financial instruments, assess prospectively whether there is any indication of impairment of the financial instruments recognized and/or measured in the statement of financial position.

8.5.14. "Intangible Assets" Policy

A first-time adopter must recognize and/or measure an internally generated intangible asset if that asset meets the recognition requirements, even if the first-time adopter had expensed these assets under its previous basis of accounting. Deemed cost cannot be determined for an internally generated intangible asset.

8.5.15. "Service Concession Arrangements: Grantor" Policy

If a first-time adopter elects to measure service concession assets using deemed cost, the related liabilities must be measured as follows:

1. For liabilities under the financial liability model, the remaining contractual cash flows as stipulated in the binding agreement and the interest rate specified in the policy.

2. For the liability under a grant of right to the operator agreement, the fair value of the assets less any financial liabilities, adjusted to reflect the remaining period of the service concession agreement.

A first-time adopter must recognize and/or measure any difference between the service concession asset and the financial liability under the financial liability model in the opening balance of the accumulated surplus or deficit account at the same date the item is recognized/measured.

8.5.16. "Separate Financial Statements" Policy, "Consolidated Financial Statements" Policy, and "Investments in Associates and Joint Ventures" Policy

If a subsidiary government entity begins to adopt the government policies after the date on which its controlling government entity did so, the controlling government entity must measure the assets and liabilities in its financial statements using either of:

1. The carrying amount determined in accordance with this policy that would be included in the consolidated financial statements of the controlling government entity, based on the date of the subsidiary government entity's adoption of the government's accounting policies, and if no adjustments were made for consolidation procedures and the effects of the controlling government entity's acquisition of the subsidiary government entity.
2. The carrying amount required by this policy, based on the date of the subsidiary government entity's adoption of the government's accounting policies. These carrying amounts may differ:

   ✓ When the exemptions in this policy result in measurements that depend on the date of adopting the government's accounting policies;

   ✓ When the accounting policies used in the financial statements of the subsidiary government entity differ from those used in the consolidated financial statements.

A similar option is available for a joint venture or an associate that becomes a first-time adopter after the date of adoption followed by the entity that has significant influence or joint control over it.

9. Disclosures

A first-time adopter whose financial statements comply with the requirements of this policy and has at the same time availed impactful exemptions must include in its financial statements an explicit and unreserved statement of compliance with this policy. This statement must also be accompanied by another statement explaining the lack of full compliance with all of the government's accounting policies.

When a first-time adopter avails the transitional exemptions in this policy, it must disclose:

1. The extent to which it has availed impactful exemptions; and/or
2. The extent to which it has availed non-impactful exemptions.

When a first-time adopter avails impactful exemptions with respect to assets, liabilities, revenue and/or expenses, it must disclose:

1. The progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue and/or expenses in accordance with the requirements of the government's accounting policies;
2. The assets, liabilities, revenue and/or expenses that have been recognized and measured in accordance with the current accounting policy followed by the first-time adopter that does not comply with the requirements of the government's accounting policies;
3. The assets, liabilities, revenue and/or expenses that were not recognized, measured and/or presented in the previous financial period, which have been recognized, measured and/or presented in the current period;
4. The nature and amounts of adjustments recognized during the current period;
5. An indication of how and when the first-time adopter intends to comply fully with the requirements of the government's accounting policies.

If a first-time adopter is unable to present consolidated financial statements due to the exemptions, it must disclose:

1. The reason why it is unable to present consolidated financial statements with its investments in associates and joint ventures; and
2. An indication of when the first-time adopter will be able to present consolidated financial statements.

The disclosure requirements mentioned in this policy will help users of financial statements to monitor the progress made by the first-time adopter in aligning its accounting policies with the requirements of the government's accounting policies during the transitional period.

9.1. Explanation of the Transition to the Ajman Government Accounting Policies

A first-time adopter must disclose:

1. The date of adopting the government's accounting policies; and
2. Information and explanations about the effect of the transition from the previous basis of accounting to the government's accounting policies on its financial position, and where practicable, on its financial performance and cash flows.

9.2. Reconciliations

The notes accompanying the financial statements of a first-time adopter, whether they are the first financial statements fully compliant with the government's accounting policies or transitional financial statements, must contain both of the following:

1. A reconciliation between net assets/equity in accordance with the previous basis of accounting and the opening balance of net assets/equity at the date of adopting the policies; and
2. A reconciliation between the surplus or deficit in accordance with the previous basis of accounting and the opening balance of the surplus or deficit at the date of adopting the government's accounting policies.

A first-time adopter whose previous basis of accounting was the cash basis is not required to present either of these reconciliations.

The reconciliations presented must include sufficient qualitative and quantitative detail to enable users of financial statements to understand the material adjustments that occurred in the opening statement of financial position, and where applicable, the opening statement of financial performance compliant with the government's accounting policies. When other statements that are publicly available are issued concurrently with the financial statements, reference must be made in the financial statements to those publicly available statements and vice versa.

If there were errors made under the previous basis of accounting, these errors and the resulting adjustments must be distinguished from the change in accounting policies.

9.3. Disclosures Required when Using Deemed Cost for Inventory, Investment Property, Property, Plant and Equipment, Intangible Assets, Financial Instruments, or Service Concession Arrangements

If a first-time adopter follows the fair value model, or the alternative model as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, financial instruments, or service concession arrangements, its financial statements must disclose:

1. The aggregate of the fair values or other measurement alternatives that were taken into account in determining the deemed cost;
2. The aggregate adjustment to the carrying amounts recognized in accordance with the previous basis of accounting;
3. Whether the deemed cost was determined at the date of adopting the government's accounting policies, or during the transitional periods.

9.4. Disclosures Required when Using Deemed Cost for Investments in Subsidiaries, Joint Ventures, or Associates

If a first-time adopter used fair value as deemed cost in its opening statement of financial position for investments in subsidiaries, joint ventures, or associates in its separate financial statements, its separate financial statements must include the following:

1. The aggregate deemed cost of those investments for which fair value was treated as deemed cost;
2. The aggregate adjustment to the carrying amounts reported in previous financial reports in accordance with the previous basis of accounting.

The requirements must be disclosed in each reporting period in which a new item is recognized and/or measured until the exemption period expires or the first-time adopter recognizes and/or measures these items in accordance with the government's accounting policies (whichever occurs first).

9.5. Exemptions Related to Disclosure Requirements in Government Policies during the Transitional Period

When a first-time adopter avails impactful exemptions that allow non-recognition and/or measurement of certain items during a three-year transitional period, the first-time adopter is not required to apply any of the presentation and disclosure requirements related to those items that were not recognized and/or measured until the exemption period expires and/or the first-time adopter recognizes and/or measures these items in accordance with this guide (whichever occurs first).

Policy 17 - Accounting Policies, Changes in Accounting Estimates and Errors

Table of Contents for Accounting Policies, Changes in Accounting Estimates and Errors

1. Objective of the Policy

This policy aims to understand and explain the following key topics that a government entity may encounter:

1. Prescribing criteria for selecting and changing accounting policies;
2. The accounting treatment and disclosure of changes in accounting policies;
3. Changes in accounting estimates; and
4. The correction of errors.

2. Scope

This policy applies to the government entities covered and detailed in the introduction to the guide, where the government entity must apply this policy when:

1. Selecting and applying accounting policies;
2. Accounting for changes in accounting policies;
3. Accounting for changes in accounting estimates; and
4. Accounting for corrections of prior period errors.

3. Accounting Policies

3.1. Selection and Application of Accounting Policies

A government entity applying the accrual basis of accounting in accordance with the Ajman Government's accrual accounting policies must identify and apply the accounting policy or policies for a transaction, other event, or condition.

The accounting policies applied by a government entity, which are prepared based on the Ajman Government's accounting policies, must result in financial statements containing reliable and relevant information about the transactions, other events, and conditions to which those accounting policies apply. It is not necessary to apply accounting policies when the effect of their application is not material. However, it is inappropriate to make, or not correct, immaterial departures from the policies to achieve a particular presentation of the government entity's financial position, financial performance, or cash flows.

Assessing whether omissions or misstatements in financial statements are material requires considering the characteristics of users of the financial statements whose decisions are affected by the materiality of those omissions or misstatements. Users of financial statements are assumed to have a reasonable knowledge of public sector, economic activities, and accounting and a willingness to study the information with reasonable diligence. Therefore, the process of determining whether omissions or misstatements in financial statements are material must take into account the extent of the impact on users, who have those characteristics, in making and evaluating decisions.

In cases where a new transaction, event, or condition may arise in the future that is not addressed within the policies, the management of the government entity must use its professional judgment in developing and applying an accounting policy that results in information that is:

1. Relevant to the decision-making needs of users; and
2. Reliable, in that the financial statements:
    1. ✓ Enhance the credibility of the government entity's financial position, financial performance, and cash flows;

2. ✓ Reflect the economic substance of transactions, other events, and conditions, and not merely their legal form;
3. ✓ Are neutral and free from bias;
4. ✓ Reflect the principle of prudence; and
5. ✓ Are complete in all material respects (taking into account material transactions).

When using professional judgment as described in this policy, the management of the government entity must consider the applicability of the following sources in descending order:

1. The requirements in policies dealing with similar and related issues; and
2. The definitions, recognition, and measurement criteria for assets, liabilities, revenue, and expenses addressed in the policies.

3.1.1. Consistency of Accounting Policies

A government entity shall select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless a specific policy requires or permits categorization of items for which different accounting policies may be appropriate. If a policy requires or permits such categorization, an appropriate accounting policy is selected and applied consistently to each category.

3.1.2. Changes in Accounting Policies

A government entity shall change an accounting policy only if the change:

1. Is required by an amendment to the government's accounting policies; or
2. Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events, or conditions on the government entity's financial position, financial performance, or cash flows.

The following are considered changes in accounting policies:

1. A change from one basis of accounting to another;

2. Any change in the accounting treatment or in the recognition or measurement process for a transaction, event, or condition within a specific basis of accounting.

The following are not changes in accounting policies:

1. The application of an accounting policy for transactions, other events, or conditions that differ in substance from those previously occurring; and
2. The application of a new accounting policy for transactions, other events, or conditions that did not occur previously or were immaterial.

3.2. Applying Changes in Accounting Policies

Subject to what is mentioned in this policy:

✓ A government entity shall account for a change in accounting policy resulting from the initial application of a policy in accordance with the specific transitional provisions (if any) in that policy or those specified in the "First-time Adoption of Accrual Basis" policy; and
✓ A government entity shall apply a change in accounting policy retrospectively when it changes an accounting policy on initial application of a policy that does not contain any specific transitional provisions applicable to that change in accounting policy, or if the government entity decides to change an accounting policy voluntarily.

3.2.1. Retrospective Application

When a change in accounting policy is applied retrospectively, the government entity shall adjust the opening balance of each affected component of net assets/equity for the earliest prior period presented in the financial statements and the other comparative amounts disclosed for each prior period presented in the financial statements as if the new accounting policy had always been applied, except in the cases mentioned in this policy.

Example: Changes in Accounting Policy (Retrospective Application)

Given:

Assume that the Municipality and Planning Department, until 2017, followed an accounting policy related to determining the carrying amount of inventory using the "weighted-average cost formula". However, at the beginning of 2018, after several management meetings, the Municipality and Planning Department decided to change the inventory calculation method from the "weighted-average cost formula" to the "first-in, first-out formula". The management of the Municipality and Planning Department expects this change in accounting policy to result in material differences.

Column "A" below represents all data related to inventory amounts when using the "weighted-average cost formula".

Accounting Treatment:

The Municipality and Planning Department voluntarily decided to change the accounting policy for inventory from the "weighted-average cost formula" to the "first-in, first-out formula". Therefore, this change in the inventory calculation method is considered a change in accounting policy that must be applied retrospectively. The government entity has determined what the carrying amounts would have been as if the new accounting policy had always been applied. (See Column "B" below)

Accordingly, the Municipality and Planning Department must adjust the opening balance of net assets/equity for the earliest prior period presented in the financial statements (the opening balance for 2017 has been adjusted. See *AED 31,000 in column "B"), and the other comparative amounts disclosed for each prior period presented in the financial statements as if the new accounting policy had always been applied.

Change in Accounting Policy with Retrospective Effect				
	A		**B**	
	Weighted-Average Cost Formula		**First-In, First-Out Formula**	
Part of Statement of Financial Position (Carrying Amount of Inventory)	**2017 AED**	**2018 AED**	**2017 AED**	**2018 AED**
Inventory	10,000	12,000	12,000	13,000
Part of Statement of Financial Performance (Calculation of Cost of Inventory Sold)	**2017 AED**	**2018 AED**	**2017 AED**	**2018 AED**
Opening Balance of Inventory	8,000	12,000	10,000	13,000
Inventory Purchases	44,000	48,000	44,000	48,000
Closing Balance of Inventory	(12,000)	(10,000)	(13,000)	(12,000)
Cost of Inventory Sold	40,000	50,000	41,000	49,000
Part of Statement of Changes in Net Assets	**2017 AED**	**2018 AED**	**2017 AED**	**2018 AED**
Opening Balance of General Reserve	30,000	50,000	*31,000	50,000
Surplus / Deficit for the Period	20,000	30,000	19,000	31,000
Closing Balance of General Reserve	50,000	80,000	50,000	81,000

3.2.2. Limitations on Retrospective Application of Changes in Accounting Policies

When retrospective application is required, a government entity shall apply the change in accounting policy retrospectively except to the extent that it is impracticable to determine either:

1. The period-specific effects; or
2. The cumulative effect of the change.

If a change in accounting policy occurs and the government entity finds it impracticable to determine the period-specific effects on comparative information for one or more prior periods presented, the government entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.

When it is impracticable for the government entity to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the government entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable. Accordingly, the portion of the cumulative adjustment to assets, liabilities, and net assets/equity arising before that date is disregarded. A government entity is permitted to change its accounting policies regardless of whether the entity is able to apply the change in accounting policy retrospectively.

Policy 19 - Cash Flow Statements

Table of Contents for Cash Flow Statements Policy

1. Policy Objective

This policy aims to define the basis for presenting cash flows through a cash flow statement that specifies the following:

1. Sources of incoming cash flows;
2. Items on which cash was spent during the reporting period;
3. The cash balance at the reporting date.

2. Scope

This policy addresses the following topics related to the cash flow statement:

1. How to classify cash flows based on their source as operating, investing, or financing activities;
2. How to report cash flows based on activity classification;
3. Preparation and presentation of the cash flow statement and how to present other topics such as non-cash transactions.

3. Benefits of Cash Flow Information

Information about cash flows helps users of financial statements to:

1. Assess the government entity's cash flows;

2. Assess the entity's compliance with laws and regulations (including approved budgets);
3. Make decisions about providing resources to the government entity or entering into transactions with it;
4. Forecast the future cash requirements of the government entity;
5. Assess the government entity's ability to generate cash flows in the future;
6. And the government entity's ability to finance changes in the scope and nature of its activities.

4. Important Information Related to Cash Flows

4.1. Cash and Cash Equivalents

The government entity holds cash equivalents for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to be classified as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment is considered a cash equivalent only when it has a short maturity (as defined above in the definitions, i.e., three months or less from the date of acquisition). Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

5. Presentation of the Cash Flow Statement

The government entity prepares a cash flow statement for the period, where cash flows are classified by operating, investing, and financing activities in a manner that is most appropriate to its activities. Classification by activity type provides information that allows users to assess the financial impact of these activities on the entity and its amount of cash and cash equivalents.

A single transaction may include several cash flows which the government entity classifies differently.

Example: Different classifications of cash flows from a single transaction

The Department of Finance borrowed an amount of AED 2,000,000 and repaid AED 1,080,000 during the current year. The interest component of the loan repayment for the year was determined to be AED 80,000.

In the government entity's cash flow statement, the amount of AED 1,000,000 should be classified under cash flows from financing activities, and the AED 80,000 representing interest should be classified under cash flows from operating activities because it is included in determining the net surplus or deficit (it can also be classified as a financing cash flow, as it is a cost of obtaining financial resources).

5.1. Operating Activities

The amount of net cash flows resulting from operating activities is a key indicator of the extent to which the government entity's operations are financed:

1. By taxes;
2. From receipts for goods and services provided by the government entity.

The amount of net cash flows also helps to show the government entity's ability to maintain its operating capacity, pay off liabilities, pay dividends or similar distributions to its owners, and make new investments without resorting to external sources of financing.

The consolidated operating cash flows of the government provide an indicator of the extent to which the government is financing its current activities through taxes and fees. Information about the specific components of historical operating cash flows is useful when used with other information in forecasting future operating cash flows.

Cash flows arising from operating activities are primarily derived from the principal cash-generating activities of the government entity.

Example: Examples of cash flows arising from operating activities

1. Cash receipts from taxes, duties, and fines;
2. Cash receipts from grants or transfers and other appropriations;

3. Cash receipts from royalties, fees, commissions, and other revenue;
4. Cash payments to other government entities or third parties to finance their operations (excluding loans);
5. Cash payments to suppliers of goods and services;
6. Cash payments to and on behalf of employees;
7. Cash receipts and payments for insurance premiums, claims, annuities, and other benefits specific to the government entity's policy;
8. Cash payments of taxes (where applicable, for example, local property taxes or other taxes) in respect of operating activities;
9. Cash receipts and payments from contracts held for trading purposes;
10. Cash receipts or payments relating to the settlement of litigation.
11. Cash payments to construct or acquire assets held for rental to others and subsequently held for sale, and cash receipts from rents and subsequent sales of these assets.
12. Cash flows arising from the purchase or sale of dealing or trading securities when the government entity holds these securities and loans for trading purposes.

In cases where the government entity is unable to separately identify appropriations or amounts authorized in the budget as relating to operating transactions, capital costs and projects, or financing transactions, these appropriations or amounts must be classified as cash flows from operating activities, and this must be disclosed in the notes to the financial statements.

5.1.1. Investing Activities

The government entity discloses cash flows from investing activities separately because this represents the extent to which cash has been used for resources that will contribute to the future service delivery of the government entity. Therefore, only cash outflows that result in the recognition of an asset in the statement of financial position are eligible for classification as investing activities.

Example: Examples of cash flows from investing activities

1. Cash payments to acquire property, plant, and equipment, intangible assets, and other long-term assets. These payments include those related to the costs of recognizing these assets;
2. Cash receipts from sales of property, plant, and equipment, intangible assets, and other long-term assets;
3. Cash payments to acquire financial assets (such as equity in other entities and interests in joint ventures, excluding payments for those instruments considered cash equivalents as defined in this policy or those held for dealing or trading purposes);
4. Cash receipts from sales of financial assets (such as equity in other entities and interests in joint ventures, excluding cash receipts for instruments considered cash equivalents as defined in this policy and those held for dealing or trading purposes);
5. Cash advances and loans made to other parties;
6. Cash receipts from the repayment of advances and loans made to other parties.

5.1.2. Financing Activities

Disclosing cash flows from financing activities separately helps in predicting future claims by parties that finance the government entity.

Example: Examples of cash flows from financing activities

1. Cash proceeds from issuing loans, bonds, mortgages, and other short-term or long-term borrowings;
2. Cash repayments of borrowed amounts;
3. Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

5.2. Reporting Cash Flows

5.2.1. Reporting Cash Flows from Operating Activities

The government entity reports cash flows from operating activities using the indirect method by adjusting the surplus or deficit for the effects of:

1. Changes during the period in inventories, operating receivables, and operating payables;
2. Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and non-controlling interests;
3. All other items for which the cash effects are investing or financing activities.

Example: Cash Flow Statement - Operating Activities (Indirect Method)

Cash flows from operating activities	**2018**	**2017**
Surplus / Deficit for the period	x	x
Non-cash adjustments		
Depreciation	x	x
Amortization	x	x
(Decrease)/Increase in provisions	x	x
(Decrease)/Increase in payables	x	x
(Gains)/Losses on sale of property, plant and equipment	x	x
Decrease (Increase) in other current assets	(x)	(x)
Decrease (Increase) in receivables	(x)	(x)
Decrease (Increase) in inventory	(x)	(x)
Decrease/(Increase) in prepayments	(x)	(x)
Net cash flows from operating activities	**x**	**x**

5.2.2. Reporting Cash Flows from Investing and Financing Activities

The government entity shall report separately the major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except when cash flows are reported on a net basis.

Example: Cash Flow Statement – Presentation of Cash Flows from Investing and Financing Activities

Cash flows from investing and financing activities	**2015**	**2014**
Cash flows from investing activities		
Purchase of property, plant and equipment	(x)	(x)
Proceeds from sale of property, plant and equipment	x	x
Purchase of intangible assets	(x)	(x)
Purchase of financial assets	(x)	(x)
Purchase of investments	(x)	(x)
Proceeds from sale of financial assets	x	x
Proceeds from sale of investments	x	x
Dividends received	x	x
Interest received	x	x
Net cash flows from investing activities	**x**	**x**
Cash flows from financing activities		
Proceeds from borrowings	x	x
Repayment of borrowings	(x)	x
Net cash flows from financing activities	**x**	**x**

5.2.3. Reporting Cash Flows on a Net Basis

The government entity may report the following cash flows arising from operating, investing, or financing activities on a net basis:

✓ Cash receipts and payments on behalf of customers, taxpayers, or beneficiaries when the cash flows reflect the activities of the other party rather than those of the government entity;
✓ Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

5.3. Foreign Currency Cash Flows

The government entity records cash flows arising from transactions in a foreign currency in its functional currency by applying the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

The government entity translates the cash flows of a foreign subsidiary (under control) at the exchange rates on the dates of the cash flows.

Cash flows denominated in a foreign currency are reported in a manner consistent with the "Effects of Changes in Foreign Exchange Rates" policy. This allows the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or for translating the cash flows of a foreign government subsidiary. The "Effects of Changes in Foreign Exchange Rates" policy does not permit the use of the exchange rate at the reporting date when translating the cash flows of a foreign government subsidiary.

Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities.

5.4. Interest and Dividends or Similar Distributions

The government entity shall disclose separately cash flows from interest and dividends or similar distributions received and paid. Each shall be classified in a consistent manner from period to period as either operating, investing, or financing activities.

Interest paid and interest and dividends or other distributions received may be classified as operating cash flows because they enter into the determination of net surplus or deficit. Alternatively, they may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Distributions paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, distributions paid may be classified as a component of cash flows from operating activities in order to assist users in determining the ability of the government entity to make these payments out of operating cash flows.

5.5. Taxes on Net Surplus

Currently, there are no taxes imposed on the net surplus of government entities. However, some government entities may operate under regulations and countries that may impose taxes on the net surplus. Consequently, the government entity shall disclose separately cash flows arising from taxes on net surplus and shall classify them as cash flows from operating activities, unless they can be specifically identified with financing and investing activities.

Taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with investing or financing activities, it is classified within investing or financing activities. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

5.6. Investments in Subsidiaries, Associates, and Joint Ventures

When accounting for an investment in an associate or a subsidiary/jointly controlled entity accounted for using the equity method, the government entity restricts the presentation in the cash flow statement to the cash flows between itself and the investee entity, for example, dividends or similar distributions and advances.

5.7. Acquisition and Disposal of Government Entities/ Subsidiaries and Other Operating Units

The government entity shall present the aggregate cash flows arising from the acquisition and disposal of government entities/subsidiaries and other operating units separately and classify them as investing activities.

The government entity must disclose, in aggregate, the following in relation to the acquisition and disposal of government entities/subsidiaries and other operating units:

1. The total purchase or sale consideration;
2. The portion of the purchase or sale consideration discharged by means of cash and cash equivalents;

3. The amount of cash and cash equivalents in the government entity/ subsidiary or operating unit acquired or disposed of;
4. The amount of assets and liabilities other than cash and cash equivalents recognized by the government entity/subsidiary or operating unit acquired or disposed of, summarized by each major category.

5.8. Non-cash Transactions

The government entity shall exclude from the cash flow statement investing and financing transactions that do not require the use of cash or cash equivalents. However, such transactions shall be disclosed elsewhere in the financial statements in a way that provides all relevant information about these investing and financing activities. This is because many investing and financing activities do not have a direct impact on current cash flows but do affect the net assets/equity of the government entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period.

Non-cash transactions include the acquisition of assets by exchanging assets or assuming directly related liabilities or by means of a finance lease.

5.9. Disclosures

5.9.1. Disclosure of Components of Cash and Cash Equivalents

The government entity must disclose the components of cash and cash equivalents and present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.

The government entity must disclose the amount of significant cash and cash equivalent balances that are not available for use by the economic entity, along with commentary provided by the management of the government entity.

The government entity may disclose additional information that may be useful to users in understanding the financial position and liquidity of the entity. This policy encourages the disclosure of such information in addition to a description in the notes, which may include:

1. The amount of undrawn borrowing facilities that may be available for future operating activities and for the settlement of commitments, indicating any restrictions on the use of these facilities;
2. The amount and nature of cash balances that are restricted.

Policy 20 – Related Party Disclosures

Table of Contents for Related Party Disclosures Policy

1. Policy Objective

This policy aims to ensure disclosure of relationships between related parties in transactions where there is a significant influence from one government entity on another or in cases where government entities control others. Such information is disclosed to facilitate a better understanding of the statement of financial position and the statement of financial performance of the government entity.

This policy primarily addresses the following topics:

1. Identifying parties that control or have significant influence over the government entity;

2. Identifying the information that must be disclosed about transactions with these parties.

2. Scope

This policy applies to the government entities covered and detailed in the introduction of the manual.

3. Identifying Related Parties

3.1. Close Family Members

Professional judgment is necessary to determine whether an individual should be considered a close family member of a person for the purposes of applying this policy. The government entity defines the close family members of a person as follows:

1. The spouse, dependent child, or relative living in the same household as the person concerned in this policy;
2. A grandparent, parent, non-dependent child, grandchild, brother, or sister;
3. A son-in-law, father-in-law, brother-in-law, or sister-in-law.

3.2. Key Management Personnel

Key management personnel include all directors or members of the government entity who have the authority and responsibility for planning, directing, and controlling the activities of the government entity.

When a government entity is subject to the general supervision of an elected or appointed representative of the government to which the government entity belongs, this representative is considered one of the key management personnel if their supervision includes the authority and responsibility for planning, directing, and controlling the activities of the government entity. As for the advisors of these representatives, they may be considered key management personnel if they have a special working relationship with the person who controls the government entity. Therefore, they have access to special information and can also exercise control or significant influence over the government entity indirectly. Personal judgment is required in assessing whether an individual is considered a key advisor and whether this advisor meets the definition of key management personnel, or is a related party.

The governing body is considered to have the authority and responsibility for planning and controlling the activities of the government entity, and managing the resources of the government entity along with the responsibility for achieving the overall objectives of the government entity. In some jurisdictions, civil servants do not have sufficient authority and responsibility to be included in the group of key management personnel (as defined in this policy) in government situations. In such cases, the key management personnel consist of the elected members of the government entity who bear the greatest responsibility to the government (such as governors).

The senior management group in a private enterprise may consist of individuals from the controlling government entity and other entities which together form the private enterprise.

The remuneration of key management personnel includes salaries paid to them for their services to the government entity in their capacity as members of the government entity or as employees.

3.3. Related Parties

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form. Consequently, the following parties are not considered related parties despite their legal form (and not limited to):

1. A government entity with which the relationship is only that of an agency; or
2. Financiers.

When two government entities share a member of their key management personnel, it is necessary to consider the possibility, and assess the likelihood, that this person may influence the policies of both entities in their mutual dealings. However, the mere existence of a common member among key management personnel does not necessarily create a related party relationship.

Related party relationships may arise when a person is a member of the government entity or has a role in the financial and operating decisions of the government entity. These relationships may also arise through external working relationships between the government entity and the related party, and such relationships often involve a degree of economic dependence.

Economic dependence occurs when a particular government entity depends on another government entity for a large volume of its funding or for the sale of its products and services. Economic dependence alone does not lead to control or significant influence and is therefore unlikely to, by itself, result in a related party relationship. Accordingly, a single customer, supplier, franchisee, distributor, or general agent with whom a government entity transacts a significant volume of business is not considered a related party solely by virtue of the resulting economic dependence. However, economic dependence with other factors may lead to significant influence and thus a related party relationship. Judgment is required to assess the effect of economic dependence on the relationship. When a government entity is economically dependent on another party (another government entity or a third party), it should disclose the existence of this dependence.

The definition of related parties includes private enterprises owned by key management personnel or close family members of these persons in the government entity. The definition of a related party also includes cases where one party is able to exercise significant influence over another party. A person or government entity may be granted the responsibility of supervising another government entity, which makes this person or government entity have significant influence over the financial and operating decisions made by the other government entity but does not give them control over these decisions. The definition of significant influence for the purposes of this policy includes entities under common control - please refer to the "Joint Arrangements" policy for more details on joint operations and joint control.

4. Related Party Transactions

4.1. Aspects of Related Party Transactions

Related party relationships arise across government entities for the following reasons:

1. Government entities are subject to the overall direction of the executive government or the government entity of elected or appointed officials, and they work together to achieve government policies;
2. Government departments and agencies carry out the necessary activities to achieve the different parts of their responsibilities and objectives, often through separately controlled government entities, and through government entities in which they have significant influence;
3. Ministers or elected members of the government entity and the senior management group exert significant influence on the operations of a particular government entity or agency.

Disclosure of related parties and their relationships with each other is necessary for accountability purposes and enables users to better understand the financial statements provided by the government entity, for the following reasons:

1. Related party relationships affect the way the government entity works with other entities to achieve its individual objectives, and the way it cooperates with other entities to achieve collective or common objectives;
2. A particular government entity may be exposed to risks due to relationships with a related party, or create new opportunities that would not have been available in the absence of these relationships;
3. Related parties may enter into transactions that unrelated parties would not, or they may agree on transactions on terms different from those that would normally be available to unrelated parties. This frequently occurs in government departments and agencies where goods and services are transferred between them at less than full cost as part of normal operating procedures carried out to achieve the objectives of the government entity and the government. It is

expected that the government and government entities will use resources efficiently and effectively and in the desired manner, and will handle public funds with the highest levels of integrity. The existence of related party relationships means that one party can control or effectively influence the activities of the other party. This provides an opportunity to carry out transactions that benefit one party at the expense of the other.

Disclosure of certain types of transactions with related parties and the terms under which these transactions were conducted helps users assess the impact of these transactions on the financial position and financial performance of a particular government entity and its ability to deliver agreed-upon services. This disclosure also ensures the transparency of the government entity in dealing with related parties.

The following are examples of situations where transactions with related parties may lead to disclosures by the government entity preparing financial statements in accordance with this policy:

1. Providing or receiving services;
2. Purchasing or transferring/selling goods (finished or unfinished);
3. Purchasing or transferring/selling property and other assets;
4. Lease agreements;
5. Financing (including loans, capital contributions, and grants, whether in cash or in kind, and other forms of financial support, including cost-sharing agreements);
6. Guarantees and commitments.

4.2. Key Management Personnel Compensation

Key management personnel occupy positions of responsibility within the government entity. They are responsible for the strategic direction and operational management of a specific government entity and are entrusted with significant powers. Their compensation is often determined by law, an independent tribunal, or another body independent of the government entity. Nevertheless, their responsibilities may enable them to influence the job benefits that flow to them or to parties with whom they are associated. This policy requires certain disclosures about:

1. The compensation of key management personnel and their close family members during the reporting period;
2. Loans made to them;
3. Remuneration granted to them for services they provide to the government entity, excluding services they provide as members of the government entity or as employees. In addition to applying minimum levels of transparency to the compensation of key management personnel and their immediate relatives.

4.3. Materiality

The "Presentation of Financial Statements" policy requires separate disclosure of material items. The materiality of an item can be determined by reference to its nature and size. When assessing materiality in related party transactions, the nature of the relationship between the government entity and the related party and the nature of the transaction itself may mean that the transaction is material regardless of its size.

5. Disclosures

This policy requires the disclosure of information and transactions relating to certain categories of related parties. Particular emphasis is placed on the government entity's transactions with its directors or members of its governing body and with its senior management group, especially their compensation and loans. This is for the following reasons:

1. The fiduciary responsibilities held by directors, members of the government entity, and the senior management group;
2. The significant powers they possess regarding the use of the government entity's resources. In some jurisdictions, similar requirements are included in the laws and regulations applicable to government entities.

Transactions with related parties are also disclosed under the requirements of some other policies, such as:

1. "Presentation of Financial Statements" where amounts paid to and received from controlling government entities, associate government entities, and other related parties must be disclosed.
2. "Separate Financial Statements" and "Consolidated Financial Statements" where relationships must be disclosed when control exists, regardless of whether there have been transactions.
3. "Investments in Associates and Joint Ventures" requires disclosure of a list of associate government entities.

5.1. Disclosure of Transactions with Related Parties

In transactions between related parties, except for transactions that fall within the normal supplier relationship or customer/recipient relationship on terms that are more or less favorable than those that would reasonably be expected to be adopted by the government entity if it were dealing with that individual or government entity on a purely commercial basis under the same circumstances, the government entity must disclose each of the following:

1. A description of the nature of the relationship with the related parties covered by these transactions. For example, a description of whether the relationship is with a controlling government entity, controlled government entities, a government entity under common control, or a key management personnel;
2. A description of the transactions with related parties within each of the general transaction categories, indicating the size of the categories whether as a specific cash amount, a percentage of that category of transactions or account balances, or both;
3. A summary of the general terms of the transactions with related parties, including disclosure of the difference between these terms and those normally found in similar transactions with non-related parties;
4. The amounts or appropriate proportions of outstanding items.

Example: Disclosure of information about transactions between government entities

Government entities under the Government of Ajman deal with each other intensively on a daily basis. These transactions may take place at cost, below cost, or for free. For example, a government entity for administrative services may provide a free office to another entity, or a government entity may act as a purchasing agent for another government entity. In some government models, it may be possible to recover more than the full cost when providing a service. The departments are related parties because they are under common control, and these transactions meet the definition of related party transactions. However, disclosure of information about transactions between these government entities is not required when:

1. The transactions are consistent with the normal operating relationships between government entities;
2. They are carried out on terms that are considered normal for such transactions in such circumstances.

The exclusion of related party transactions from the disclosure requirements of this policy reflects the fact that government entities work together to achieve common objectives, and acknowledges the different mechanisms for service delivery by government entities in different jurisdictions. This policy requires the disclosure of related party transactions when those transactions are conducted on a basis other than the operational benchmarks established in that jurisdiction.

Items of a similar nature may be disclosed in aggregate unless separate disclosures are necessary to provide relevant and reliable information for decision-making and accountability purposes.

Disclosure of related party transactions that occur between members of a government group is unnecessary in consolidated financial statements because these statements present information about the controlling government entity and the controlled government entities as a single government entity. Related party transactions that occur between government entities are eliminated on consolidation in accordance with the "Separate Financial Statements" policy and the "Consolidated Financial

Statements" policy. Transactions with associate government entities that are accounted for using the equity method are not eliminated and therefore require separate disclosure as related party transactions.

5.2. Disclosure – Key Management Personnel

The government entity must disclose the following:

1. Compensation of key management personnel as an aggregate amount and the number of individuals, identified on a full-time equivalent basis, who receive compensation within this category, showing the main categories of key management personnel separately and providing a description of each category. Key management personnel may be appointed on a full-time or part-time basis, and an estimate of the number of individuals disclosed as receiving compensation on a full-time equivalent basis is required. Government entities provide separate disclosures about the main grades of key management personnel.
2. All other salaries and compensation provided to key management personnel and close family members of key management personnel paid by the government entity during the reporting period as an aggregate amount, with the total amounts provided to each of the following stated separately:
    - ✓ Key management personnel;
    - ✓ Close family members of key management personnel;
3. In respect of loans that are not widely available to non-key management personnel, and loans that are not widely known to the public, for each member of key management and each close family member of key management personnel:

    ✓ The size of loans made during the period and the terms of those loans at that time;
    ✓ The amounts of loans repaid during the period;
    ✓ The balance of all loans and receivables at the end of the reporting period;
    ✓ When the individual is not a director or member of the government entity or senior management group, disclosure of that individual's relationship to the individuals or the group.

This policy requires disclosure of related party transactions that occur on a basis other than an "arm's length basis" that complies with the operational terms established for the government entity. This policy also requires disclosure of information about specific transactions with key management personnel identified in this policy, whether or not these transactions were conducted on a commercial basis consistent with the operational terms in effect at the government entity.

Compensation for key management personnel may include a range of direct and indirect benefits. When it is possible to determine the cost of these benefits, this cost is included in the total disclosed compensation. When it is not possible to determine the value of these benefits, the best possible estimate of the costs incurred by the government entity is made and included in the total disclosed compensation. For example, guidance on the measurement of employee benefits can be obtained from the "Employee Benefits" policy. When non-cash compensation that can be reliably measured is included in the total amount of key management personnel compensation disclosed for the period, disclosure is made in the notes to the financial statements about the basis for measuring the non-cash compensation.

Policy 21 - Presentation of Budget Information in Financial Statements

Table of Contents for the Policy on Presentation of Budget Information in Financial Statements

5. Disclosure in the Notes about the Basis, Period, and Scope of the Budget

6. Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

1. Objective of the Policy

This policy requires the inclusion of a comparison of budget and actual amounts arising from the execution of the budget in the financial statements of a government entity that makes its approved budget publicly available, for which the entity is responsible and thus publicly accountable. The policy also requires disclosure of the reasons for material differences between the budget and actual amounts, so that the government entity fulfills its accountability duties and enhances the transparency of its financial statements by:

1. Explaining compliance with the approved budget for which it is publicly accountable; and
2. Demonstrating its financial performance in achieving the estimated results, in cases where the budget and financial statements are prepared on a similar basis.

This policy primarily addresses the following topics:

1. Defining the concept of approved budgets;
2. The basis for presenting and comparing budgeted amounts and actual amounts;
3. How to determine the comparable basis;
4. Presentation and disclosure requirements related to the presentation of the budget within the financial statements.

2. Scope

This policy applies to government entities that are required, or elect, to make their approved budgets publicly available. However, the policy itself does not require any government entity to make its approved budgets publicly available, nor does it require the financial statements of a government entity to disclose information about an approved budget that is not publicly available or to make any comparison between the budget and the financial statements of the government entity.

Approved budgets are sometimes aggregated to include all activities undertaken by the government entity. At other times, separate publicly available approved budgets may be required for certain activities, groups of activities, or government entities included within the government's financial statements.

> **Example: Consolidated Budgets and Separate Budgets**
>
> The government's general budget represents the financial program for achieving economic and social development through the efficient allocation and use of resources within the framework of government strategy. The government's general budget includes many government entities, but independent service government entities may have budgets separate from the general budget as long as there is a legal provision allowing for it.

Annual Project to Link the General Budget and Independent Budgets

General Budget Budgets of Independent Entities	→	Issuance of the Annual Budget Linkage Law and Approval of the General Budget

3. Approved Budgets

The approved budget reflects the revenues or receipts expected to arise in the annual budget period or multi-year budget period based on current plans and expected economic conditions for the period covered by the budget, and the expenditures or expenses approved by the relevant legislative authority.

There is a difference between an approved budget and prospective financial information, as an approved budget cannot be considered a forecast or projection based on assumptions about future events and potential management actions that are not necessarily expected to take place.

Upon approval of the budget, the government entity must adhere to legal and regulatory controls for spending what is included in the budget. The government entity is bound by expenditures within the limits of the financial appropriations allocated to it in the approved budget according to specific line item allocations, and thus the authority specified in the approved budget is generally the legal limit within which the government entity must operate.

If the budget is not approved before the beginning of the budget period, the legislative authority may approve temporary monthly appropriations on the basis of one-twelfth of the previous fiscal year's appropriations.

Example: Existence of appropriations from previous years in the original budget

A financial appropriation of AED 10,000,000 was approved in the budget of a government entity for the year 2016. However, because the entity was busy with other projects during 2016, it was unable to conclude the contract with the contractor on time; it was signed in the third quarter of 2016, and it was agreed to start construction of the building at the beginning of 2017. Accordingly, the government entity decided to include the previously approved appropriation as part of the 2016 budget of AED 10,000,000 in the 2017 budget according to the implementation plan and by law.

It may be necessary at times, after obtaining the appropriate legal or legislative approvals, to make adjustments to the original budget arising from various situations, for example, but not limited to:

1. If there is a need to obtain additional appropriations to cover expenses not anticipated in the original budget, which requires amending the original budget; or
2. If there is a shortfall in estimated revenues during the period, making it necessary to make internal transfers between budget chapters or between line items to accommodate funding priorities during the financial period; or
3. In cases requiring financial discipline, where funds allocated to a government entity or a specific activity may be cut from the amount originally allocated for the period and included in the original budget.

The final budget includes all changes and amendments to the original approved budget and is often referred to as the "final budget."

In many cases, the final budget is equal to the actual amounts due to continuous monitoring of the budget execution process during the period and gradually adjusting the original budget to reflect changes in conditions, situations, and experiences during the reporting period.

4. Presentation of a Comparison of Budget and Actual Amounts

A government entity that prepares and presents financial statements on an accrual basis and is required, or elects, to make its approved budget publicly available shall present a comparison of the estimated amounts included in the budget with the actual amounts as a separate additional financial statement in the financial statements, unless the general budget is prepared on an accrual basis, in which case the government entity may present a comparison of the budgeted estimated amounts with the actual amounts as additional budget columns in the financial statements presented in accordance with the Ajman government's accrual accounting policies.

The government entity should present the comparison of estimated and actual amounts separately for each level of legislative oversight, where the following must be presented:

1. The original and final budget amounts;
2. The actual amounts on a basis comparable to the budget;
3. An explanation of material differences between the budget for which the government entity is publicly accountable and the actual amounts through disclosure in the notes, unless this explanation is included in other public documents issued concurrently with the financial statements, in which case it is referenced in the notes to the financial statements.

Example: Public documents that can be issued with the financial statements which may include an explanation of material differences between the budget and actual amounts

✓ Management's discussion and analysis report of the government entity; or

✓ Operations review report; or

✓ Other reports that provide explanations of the performance and achievements of the government entity during the period.

Presenting the financial statements of the original and final budget, and the actual amounts on a comparable basis, enables users of the financial statements to determine whether resources have been obtained and used in accordance with the approved budget, and to understand the reasons for material differences, thereby enhancing the accountability of the government entity to the public.

The government entity may, but is not required to, present the differences between the actual amounts and the amounts estimated according to the original or final budget (often referred to as "variance" in accounting) in the financial statements.

Example: Lack of guidance for the government entity on identifying material differences between estimated amounts and actual amounts

If there is no guidance for the government entity on identifying material differences between estimated amounts and actual amounts, material differences can be identified by:

✓ Focusing on the performance of the government entity relative to the original budget by identifying the differences between the original budget amounts and the actual amounts; or

✓ Focusing on the degree of compliance with the final budget by identifying the differences between the final budget amounts and the actual amounts.

Where the approved budget is made publicly available only for some of the entities or activities included in the financial statements.

Example: Activities not publicly available in the budget

It may be decided not to make public the financial information for the budget of some activities or programs of the government entity due to their confidentiality or strategic objectives.

4.1. Presentation and Disclosure

When the budget and the financial statements are not prepared on a comparable basis, a separate statement comparing the budget with the actual amounts is presented. To avoid any misreading of the financial information, the government entity may explicitly state in the financial statements that there is a difference between the basis of the budget and the accounting basis and that the statement of comparison of budget and actual amounts has been prepared on the budget basis.

The statement of comparison of budget and actual amounts is part of the components of the financial statements as described in the "Presentation of Financial Statements" policy.

4.2. Level of Aggregation

Budget documents may provide considerable detail about specific activities or programs of the government entity or even about government entities (from the government's perspective). These details are often aggregated into major budget items for presentation to the legislative authority or other official body for approval. Aggregating details of activities or programs is sometimes necessary to avoid an overload of financial information and to reflect relevant levels of legislative or other authority oversight.

When determining the level of aggregation for the details of activities and programs, the government entity relies on professional judgment after considering the qualitative characteristics that the information included in the financial statements must meet.

Classification of budget items into groups to ensure effective and clear comparison during the process of disclosing budget information and actual amounts, the government entity must disclose in a manner consistent with the way activities or programs were aggregated into major budget items for approval by the appropriate legislative authority.

Example – Aggregation of budget details into broad categories

<table>
<tr><th colspan="3">Main budget groups related to the Department of Finance (for example, not exhaustive):</th></tr>
<tr><th>Expenditure Groups</th><th></th><th>Revenue Groups</th></tr>
<tr><td>Employee Compensation</td><td rowspan="3">Department of Finance</td><td>Taxes</td></tr>
<tr><td>Goods and Services Supplies</td><td>Contributions</td></tr>
<tr><td>Other Expenses</td><td>Other Government Revenues</td></tr>
</table>

These groups include details of several items classified according to their nature. The Department of Finance can monitor the implementation of its budget by comparing the budget with the actual amounts, provided that the actual amount items are classified into groups in a manner consistent with the way the items were aggregated within the main budget groups.

The information included in the financial statements must meet qualitative characteristics, such that the information must be relevant to the users of the financial statements and reliable. The qualitative characteristics are discussed in more detail in the policy "Accounting Policies, Changes in Accounting Estimates and Errors."

The government entity may present additional budget information, including information about its service achievements, in documents other than the financial statements. It is advisable to refer to these documents from the financial statements, to be able to link the financial data of the budget and actual data with non-financial budget data and service achievements.

4.3. Changes from the Original Budget to the Final Budget

The government entity must provide an explanation as to whether the changes between the original and final budget are the result of reallocating amounts from certain chapters to other chapters within the budget or the result of other factors such as changes in the original budget assumptions, including changes in government policy.

This explanation is provided by:

1. Disclosure in the notes to the financial statements; or
2. Including this explanation in a report issued before the financial statements, or at the same time as their issuance, or concurrently with the financial statements, in which case it is referenced in the notes to the financial statements.

Example: Reports separate from the financial statements that explain the changes between the original budget and the final budget

✓ Budget execution results report; or

✓ Management's discussion and analysis report of the government entity; or

✓ Operations review report; or

✓ Other reports that provide explanations about the financial performance of budget execution.

The final budget includes all changes approved in accordance with legislative or legal procedures by the authority authorized to approve amendments to the original budget.

4.4. Comparable Basis

The government entity must present a comparison of the budget and actual amounts on a similar accounting basis and a similar classification basis for the period as in the approved budget. This ensures that information about compliance with the budget is disclosed in the financial statements on a basis similar to the basis used in the budget itself.

Ensure that the budgets that have been aggregated for presentation and disclosure are those that have been approved by the legislative authorities, and therefore do not include any unapproved changes.

Example: Determining the Comparable Basis

When the bases used between the budget and the actual amounts differ, information about compliance with the budget is disclosed in the financial statements on a basis similar to the basis used in the budget itself.

Let's assume that in 2019, an independent government entity prepares its financial statements for the year ended December 31, 2019, on an accrual accounting basis in accordance with International Public Sector Accounting Standards, while it uses the cash basis to prepare its budget for the same year.

Determining the comparable basis:

On this basis, the government entity, when disclosing the comparison of the budget and actual amounts, must use the cash basis, which requires making necessary adjustments to the amounts included on an accrual basis in the financial statements, for example, but not limited to: reorganizing amounts; reclassifying amounts; timing differences.

4.5. Multi-Year Budgets

A government entity may make a multi-year approved budget publicly available instead of annual general budgets, where the multi-year budget includes a set of annual budgets or annual budget objectives, and the approved budget for each annual period shows the application of budget policies related to the multi-year budget for that period. In some cases, a multi-year budget may allow the carry-over of unused allocations from one year to the next.

In cases where a multi-year budget exists, the determination of the original budget and the final budget depends on how they are approved.

5. Disclosure in the Notes about the Basis, Period, and Scope of the Budget

The government entity must disclose in the notes to its financial statements the basis of the budget, the classification basis adopted, and the period of the approved budget. This disclosure helps users of the financial statements understand the relationship between the budget and the accounting information included in the financial statements.

The government entity must state in the financial statements prepared in accordance with the Ajman government's accrual accounting policies whether the budget is prepared on a basis different from the accrual accounting basis.

The government entity must disclose the formats and classification mechanism adopted in presenting the approved budget, as it is possible to classify budget items into groups on a basis similar to the basis adopted in the financial statements.

Example: Classification of Budget Items

Budget items may be classified into groups which may differ from the classification included in the financial statements. For example, budget items may be classified into groups according to:

✓ The economic nature of the items (e.g., but not limited to: employee compensation; goods and services supplies); or

✓ Function (e.g., but not limited to: defense; education; social protection; health; general public services; public order and safety affairs); or

✓ Specific programs (e.g., but not limited to: poverty reduction; combating infectious diseases); or

✓ Activities related to performance outcome objectives (e.g., but not limited to: graduation of a batch of military personnel from a specific educational program).

In cases where the period of the approved budget is the same as the period covered by the financial statements, disclosing the period covered by the approved budget has a confirmatory role, especially when preparing interim budgets, financial statements, and interim reports.

The government must identify in the notes to the consolidated financial statements the government entities included in the approved general government budget.

6. Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

The government entity must reconcile the actual amounts presented on a basis comparable to the budget with the actual amounts presented in the financial statements, identifying any differences in basis, timing, and entity (as applicable). This reconciliation will better enhance the government entity's role towards its public accountability duty, by identifying the main sources of difference between the actual amounts on a budget basis and the amounts recognized in the financial statements.

The government entity must disclose a reconciliation of the net cash flows from operating, investing, and financing activities when the approved budget is prepared on a basis other than the accrual accounting basis. The reconciliation can be disclosed within the statement of comparison of budget and actual amounts, or in the notes to the financial statements.

The differences between the actual amounts presented on a basis comparable to the budget and the actual amounts presented in the financial statements can be usefully classified as follows:

1. Basis differences that occur when the approved budget is prepared on a basis different from the accounting basis. For example, if the budget is prepared on a cash basis and the financial statements are prepared on an accrual basis;
2. Timing differences that occur when the budget period differs from the reporting period shown in the financial statements;
3. Entity differences (as applicable) that occur when the budget does not include programs or entities that are part of the government entity for which financial statements are being prepared.

There may also be differences in the formats and classification schemes adopted for presenting the financial statements and the budget.

This policy does not require the government entity to disclose information related to the previous year's budget for comparative purposes or notes related to the presentation of differences for the previous period.

Example: Determining the Comparable Basis

Below is an example of a statement of comparison between budget and actual amounts on the cash basis:

Statement of Comparison between Budget and Actual Amounts	Original Budget AED	Final Budget AED	Actual Amounts on Comparable Basis AED	Differences between Final Budget and Actual Amounts AED
Cash Receipts				
Service fees	x	x	x	x
Royalties	x	x	x	x
Contributions from local Emirate governments	x	x	x	x
Dividends	x	x	x	x
Interest and currency gains	x	x	x	x
Other revenues	x	x	x	x
Total Cash Receipts	**X**	**X**	**X**	**X**
Cash Payments				
Employee compensation	(x)	(x)	(x)	(x)
Goods and services supplies	(x)	(x)	(x)	(x)
Subsidies	(x)	(x)	(x)	(x)
Social benefits	(x)	(x)	(x)	(x)
Grants	(x)	(x)	(x)	(x)
Non-financial assets	(x)	(x)	(x)	(x)
Other expenses	(x)	(x)	(x)	(x)
Total Cash Payments	**(X)**	**(X)**	**(X)**	**(X)**

Statement of Comparison between Budget and Actual Amounts	Original Budget AED	Final Budget AED	Actual Amounts on Comparable Basis AED	Differences between Final Budget and Actual Amounts AED
Net Cash Receipts / Payments	**Y**	**Y**	**Y**	**Y**

Below is an example of a note regarding the reconciliation between the budget and actual amounts, showing the differences related to the statement of cash flows.

Reconciliation between Budget and Actual Amounts included in the Financial Statements	Statement of Cash Flows			
	Operating Activities	Investing Activities	Financing Activities	Total in AED
Actual amounts on a comparable basis as presented in the statement of comparison of budget and actual amounts	XXX	XXX	XXX	XXX
Basis differences	XXX	XXX	XXX	XXX
Timing differences	XXX	XXX	XXX	XXX
Actual amounts in the statement of cash flows	**XXX**	**XXX**	**XXX**	**XXX**

Appendix - Presentation and Disclosure Requirements When the Budget and Financial Statements Are Prepared on a Similar Basis

Presentation and Disclosure Requirements When the Budget and Financial Statements Are Prepared on a Similar Basis

This appendix explains the presentation and disclosure requirements in cases where the budget is prepared on a basis similar to the accounting basis used to prepare the financial statements (for example, if the general budget is prepared on an accrual basis).

Comparison between Budget and Actual Amounts

A government entity that prepares and presents financial statements on an accrual basis and is required, or elects, to make its approved budget publicly available, shall present a comparison of the estimated amounts included in the budget with the actual amounts either as a separate additional financial statement in the financial statements or as additional budget columns in the financial statements presented in accordance with the policies.

Additional columns can be added to the main financial statements presented in accordance with the policies, such that these additional columns specify the original and final budget amounts, in addition to the differences between the estimated and actual amounts if the government entity chooses to present this.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

The government entity must reconcile the actual amounts presented with the actual amounts presented in the financial statements, identifying any differences in basis, timing, and entity (as applicable). This reconciliation will better enhance the government entity's role towards its public accountability duty, by identifying the main sources of difference between the actual amounts on a budget basis and the amounts recognized in the financial statements.

In cases where the budget is prepared on a basis similar to the accounting basis used to prepare the financial statements, only the differences between the actual amounts in the budget and the corresponding amounts in the financial statements need to be identified. No reconciliation is required when:

1. The budget is prepared for the same period;
2. The budget includes the same entities or agencies as in the financial statements; and

3. The same presentation method as in the financial statements is adopted.

However, if there is a difference in any of these points, despite following a basis similar to the accounting basis in both the budget and the financial statements, appropriate reconciliations must be made to show the differences arising from either timing, presentation, or entity differences (as applicable).

Policy 22 - Events After the Reporting Date

Table of Contents for the Policy on Events After the Reporting Date

1. Objective of the Policy

The objective of this policy is to specify the circumstances in which a government entity should adjust its financial statements after the date of preparing the final accounts, and the disclosures that should be provided about the date of authorization of the financial statements for issue and events that occur after the reporting date of these financial statements.

This policy primarily addresses the following topics:

1. Distinguishing between the date of preparing the financial statements and the date of their authorization for issue;
2. Events that require the government entity to adjust the financial statements when they occur (adjusting events);
3. Events that occur after the reporting date for which the government entity does not adjust its financial statements when they occur (non-adjusting events);
4. Determining and studying the going concern assumption of the government entity;
5. Identifying the information that must be disclosed about the date of authorization of the financial statements for issue, and disclosing adjusting and non-adjusting events after the reporting date.

2. Scope

This policy applies to government entities covered by the application of the Ajman Government Accounting Policies Manual, as detailed in the introduction to the manual.

3. Authorization of the Financial Statements for Issue

The government entity must distinguish between the date of preparing the financial statements and the date of their authorization for issue. The date of preparing the financial statements is the last day of the period covered by these financial statements. The date of authorization of the financial statements for issue is the date on which the financial statements are approved in their final form, ready for issue. On this basis, the "Audit Opinion" is issued based on these final financial statements.

4. Recognition and Measurement

In the period between the date of preparing the financial statements and the date of their authorization for issue, officials of a government entity may announce certain matters related to the entity. Whether these matters are considered adjusting events requiring recognition or non-adjusting events depends on the following:

1. Whether these matters provide additional information about conditions that existed at the reporting date;

2. Sufficient evidence that these matters can be addressed. In most cases, the announcement of such matters does not lead to their recognition as adjusting events, and they are often disclosed as non-adjusting events.

4.1. Adjusting Events After the Reporting Date

The government entity must adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date. Below are some examples of adjusting events after the reporting date:

1. The settlement of a court case that confirms the existence of an obligation on the government entity at the closing date, after the reporting date. In this case, the government entity must adjust any previously recognized provision related to the case or recognize a new provision.
2. A decline in the value of some assets at the reporting date, or that the amount of a recognized impairment loss needs to be adjusted. For example:
    - The bankruptcy of a debtor after the reporting date often confirms that a loss existed before the reporting date in an accounts receivable account and that the government entity needs to adjust the carrying amount of the accounts receivable account;
    - The sale of inventory after the reporting date may be evidence of its net realizable value at the reporting date.
3. The determination of amounts of revenue to be shared after the reporting date, which were collected during the period (and are considered due in that period) with another government entity under a revenue-sharing agreement in effect during the period covered by the financial statements;
4. The discovery of fraud or errors that show that the financial statements were incorrect.

Example: Adjusting Events After the Reporting Date

On December 31, 2018, when preparing the financial statements, a government entity recorded a provision related to a work accident case involving a group of workers in November 2018. The legal department of the government entity estimated that the entity would likely be required to pay AED 450,000 as compensation to the workers. On this basis, when preparing the final accounts, the provision was recorded as follows:

Description	Statement	Debit	Credit
Expenses - Work accident losses	Financial Performance	450,000	
Liability - Provision for work accident	Financial Position		450,000

On June 30, 2019, the competent court issued its final decision, where the final amount of compensation was AED 550,000. Knowing that the government entity's financial statements have not yet been authorized, the government entity must adjust the financial statements for the year ended December 31, 2015, by adding the following adjusting entry:

Description	Statement	Debit	Credit
Expenses - Work accident losses	Financial Performance	100,000	
Liability - Provision for work accident	Financial Position		100,000

4.2. Non-Adjusting Events After the Reporting Date

The government entity does not adjust the amounts recognized in its financial statements in the case of non-adjusting events after the reporting date. Instead, the government entity is required to disclose these events.

Example: Non-Adjusting Events After the Reporting Date

On December 31, 2018, the financial statements include a government department building with a carrying amount of AED 1.5 million. Before the authorization of the financial statements, on June 15, 2019, an earthquake struck the area where the building is located, causing damage that made the building unusable for the future. Consequently, it was necessary to re-evaluate it and determine the amount of impairment in the value of the building at that date.

On this basis, the government department building does not consider the event that occurred to be an adjusting event, as there were no indicators of impairment at the reporting date, and the event that occurred is not considered related to conditions that existed at the closing date.

Therefore, the Municipality and Planning Department must disclose the event in the financial statements.

4.3. Dividends or Similar Distributions

If dividends or similar distributions are proposed or declared after the reporting date, the government entity should not recognize these distributions as liabilities at the reporting date.

Dividends may arise when a government entity controls a private enterprise in which there are non-controlling interests, and this enterprise distributes profits based on the percentage of equity and ownership. On this basis, the government entity consolidates the financial statements of the enterprise within its consolidated financial statements.

The government entity discloses dividends or similar distributions in accordance with the "Presentation of Financial Statements" policy.

5. Going Concern of the Government Entity

For government entities that rely primarily on government funding for their operations, concerns about the going concern of the government entity usually do not arise unless the government announces its intention to cease funding for the specific government entity.

If it is determined that the going concern assumption of the government entity is no longer appropriate, it is also necessary to consider whether the change in circumstances gives rise to additional liabilities or results in conditions in debt contracts that lead to the reclassification of certain debts as current liabilities.

The "Presentation of Financial Statements" policy requires certain disclosures if:

1. The financial statements are not prepared on a going concern basis. The "Presentation of Financial Statements" policy requires that this be disclosed, along with a disclosure of the basis on which the financial statements were prepared and the reason why the government entity is not considered a "going concern government entity";
2. The officials responsible for preparing the financial statements are aware of material uncertainties related to events or conditions that cast

significant doubt on the government entity's ability to continue as a going concern. Events or conditions requiring disclosure may arise after the reporting date. The "Presentation of Financial Statements" policy requires that such uncertainties be disclosed.

5.1. Restructuring

When a restructuring is announced after the reporting date that meets the definition of non-adjusting events, the government entity makes the appropriate disclosures in accordance with this policy. Guidance on the recognition of provisions related to restructuring is found in the "Provisions, Contingent Liabilities and Contingent Assets" policy. A restructuring involves the disposal of a component/activity of the government entity, which in itself does not raise doubts that the government entity is no longer a going concern government entity. When a restructuring is announced after the reporting date, it indicates that the government entity is no longer a going concern government entity and that the nature and value of the recognized assets and liabilities may change.

6. Disclosures

6.1. Disclosure of Date of Authorization for Issue

The government entity must disclose the date of authorization of the financial statements for issue. It is important for users of the financial statements to know when the financial statements were authorized for issue, as the financial statements do not reflect events after the reporting date. It is also important for users to be aware of the rare circumstances in which any person or body has the authority to amend the financial statements after issue. Examples of persons or bodies that may have the authority to amend the financial statements after issue include the local government or any member of the government entity. If changes are made, the amended financial statements become a new set of financial statements.

6.2. Updating Disclosure about Conditions at the Reporting Date

A government entity may need to update the disclosures made within the financial statements upon obtaining new information after the reporting date but before the authorization of the financial statements for issue, even in cases where the new information does not affect the amounts recognized by the government entity in its financial statements. For example, when evidence becomes available after the closing date of a contingent liability that existed at the reporting date. In addition to considering whether it should now recognize a specific provision or not, the government entity must update its disclosures about the contingent liability in light of that evidence.

6.3. Disclosure of Non-Adjusting Events After the Reporting Date

If non-adjusting events after the reporting date are material, non-disclosure of them could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, the government entity should disclose the following for each material class of non-adjusting event after the reporting date:

1. The nature of the event;
2. An estimate of its financial effect, or a statement that such an estimate cannot be made.

Policy 23 - The Effects of Changes in Foreign Exchange Rates

Table of Contents for the Policy on The Effects of Changes in Foreign Exchange Rates

1. Policy Objective

This policy addresses the following main topics:

1. Determining the functional currency of the government entity and monetary and non-monetary items;
2. How to recognize foreign currency transactions when they occur;
3. The basis for re-evaluating balances related to foreign currencies at maturity or when preparing closing reports;
4. Controls for converting transactions recorded in foreign currencies to the approved presentation currency;
5. Necessary disclosures related to foreign currency transactions within the government entity's financial statements.

2. Scope

A government entity that prepares and presents financial statements under the accrual basis of accounting must apply this policy in the following areas:

1. Accounting for transactions and balances in foreign currencies, excluding derivative transactions and balances which fall under the "Financial Instruments" policy annex;

2. Translating the financial statements of foreign operations that are included in the government entity's financial statements through consolidation or the equity method;
3. Converting the government entity's financial statements and its financial position to a specific presentation currency.

3. Determining the Functional Currency

The government entity determines its functional currency by examining the economic environment in which it operates. The primary economic environment in which the government entity operates is the one in which it mainly generates and expends cash. Therefore, the government entity takes the following factors into account in determining its functional currency:

Primary Factors to Consider	Secondary Factors to Consider
1. The currency in which the government entity's revenues are generated, such as taxes, grants, fines, and services;	1. The currency in which funds from financing activities are generated (requesting loans or issuing debt securities);
2. The currency of the country whose competitive forces and regulations mainly determine the selling prices of goods and services;	2. The currency in which receivables from operating activities are usually recorded.
3. The currency that mainly influences the costs of personnel, materials, and other costs of providing goods and services.	

The government entity may also rely on the following factors to determine the functional currency (in this context, the foreign entity where foreign operations arise is considered a subsidiary, branch, associate, or joint venture of the government entity preparing the financial statements according to this policy):

1. Whether the activities of the foreign operation are carried out as an extension of the reporting government entity, rather than with a significant degree of autonomy;
2. Whether transactions with the reporting government entity are a high or a low proportion of the foreign operation’s activities;
3. Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting government entity and are readily available for remittance to it;
4. Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting government entity.

4. Determining Monetary Items

The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. In contrast, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

Monetary items include:

✓ Financial assets: Cash, bank balances, and accounts receivable;
✓ Financial liabilities: Accounts payable;
✓ Loans and debts.

Non-monetary items include:

✓ Tangible assets (such as property, plant, and equipment);
✓ Intangible assets;
✓ Inventory;
✓ Amounts prepaid for goods and services (e.g., prepaid rent);
✓ Provisions that are to be settled by the delivery of a non-monetary asset.

5. Net Investment in a Foreign Operation

A government entity may have a monetary item that is receivable from a foreign operation (a consulate in a foreign country) or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items may include long-term receivables or loans, but should not include trade receivables or trade payables.

6. Translation and Recording of Foreign Currency Transactions into the Functional Currency

6.1. Initial Recognition

The government entity shall record a foreign currency transaction, on initial recognition, by translating it into the government entity's functional currency. The translation is done using the spot exchange rate (the exchange rate between the foreign currency and the functional currency) at the date of the transaction.

The date of a transaction is the date on which the transaction first qualifies for recognition on an accrual basis in accordance with the accounting policies of the Government of Ajman.

6.2. Re-evaluation at the Financial Statement Date

At the closing and financial statement preparation date:

1. The government entity shall re-evaluate monetary items receivable or payable in a foreign currency using the closing rate;
2. The government entity shall include non-monetary items held at historical cost in a foreign currency using the exchange rate at the date of the transaction;
3. The government entity shall include non-monetary items held at fair value in a foreign currency using the exchange rates used at the date when the fair value was determined.

The carrying amount of some items is determined by comparing two or more values for the item. When an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

1. The cost or carrying amount, as appropriate, translated at the exchange rate at the date when that cost or amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost); and
2. The net realizable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value or amount was determined (e.g., the closing rate at the reporting date).

6.3. Recognition of Exchange Differences

Exchange differences arise from the following operations:

1. Settling monetary items in a foreign currency;
2. Re-evaluating the government entity's monetary items in the financial statements at the closing date at rates different from those at which they were translated on initial recognition during the period or in previous financial statements.

The government entity shall recognize exchange differences arising on transactions in the statement of financial performance (surplus or deficit) for the period in which they arise, except for exchange differences related to foreign investments as explained below.

Regarding the net investment in a foreign operation, when preparing financial statements at the closing date, the government entity shall recognize gains and losses arising from exchange differences (if any) related to the monetary item that forms part of the government entity's net investment in foreign currencies in the statement of financial performance in the separate financial statements of the government entity (if the monetary item is recorded in a currency different from the functional currency of the government entity) or the separate financial statements of the foreign operation (if the monetary item is recorded in a currency different from the functional currency of the foreign operation), as appropriate.

When preparing its consolidated financial statements (which include the foreign operations and the financial statements of the government entity), the government entity shall recognize exchange differences, initially in a separate component of net assets, to be recognized in financial performance upon the disposal (sale or liquidation) of the net investment in the relevant foreign operation.

When a government entity recognizes a gain or loss on a non-monetary item directly in net assets, the government entity shall recognize the gain or loss related to the exchange rate changes component directly in net assets. Similarly, when a government entity recognizes a gain or loss on a non-monetary item in the statement of financial performance, any exchange differences associated with that gain or loss should be recognized in the statement of financial performance.

Example: Reporting at a Subsequent Reporting Date

On December 15, the Department of Economic Development purchased goods from a foreign supplier. The invoice amount was 10,000 euros, and it was agreed to pay the amount in the same currency as the invoice after one month. The prevailing exchange rate between the Euro and the UAE Dirham (the government entity's functional currency) on the transaction date was (1 Euro = 4.5662 AED).

On this basis, on the date of receipt of the goods, the Department of Economic Development makes the following entry:

Description	Statement	Debit	Credit
Expenses / Purchase of goods (4.5662 × 10,000)	Financial Performance	45,662	
Liability / Accounts Payable	Financial Position		45,662

The Department of Economic Development first prepares its financial statements for the period ending December 31, and then settles the liability (10,000 euros) as agreed one month after the transaction date on January 15.

The exchange rates on these dates are as follows:

✓ December 31 (closing and financial statement preparation date) (1 Euro = 4.4431 AED);
✓ January 15 (payment date) (1 Euro = 4.2705 AED).

On this basis, at the closing date, the Department of Economic Development makes the following entry:

Description	Statement	Debit	Credit
Liability / Accounts Payable (4.5662 – 4.4431) × 10,000	Financial Position	1,231	
Foreign exchange gain	Financial Performance		1,231

On the payment date, the Department of Economic Development makes the following entry:

Description	Statement	Debit	Credit
Liability / Accounts Payable (45,662 – 1,231)	Financial Position	44,431	
Foreign exchange gain	Financial Performance		1,726
Cash (4.2705 × 10,000)	Financial Position		42,705

7. Change in Functional Currency

When there is a change in the functional currency of the government entity, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

The functional currency of the government entity reflects the transactions, events, and conditions that are relevant to the entity. Therefore, once the functional currency is determined, it can be changed only if there is a change in those underlying transactions, events, and conditions.

The effect of a change in functional currency is accounted for prospectively. In other words, the government entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets are not recognized in the statement of financial performance until the disposal (sale or liquidation) of the operation.

8. Use of a Presentation Currency Other than the Functional Currency

8.1. Translation to the Presentation Currency, Including Translation of Financial Statements of Foreign Operations

A government entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the government entity's functional currency, it translates its financial performance and financial position into the presentation currency.

The statement of financial performance and the statement of financial position of the government entity are translated from the functional currency to a different presentation currency using the following procedures:

1. Assets and liabilities in the statement of financial position (including comparative amounts) are translated at the closing rate at the date of the statement of financial position;
2. Revenue and expenses in the statement of financial performance (including comparative amounts) are translated at exchange rates at the dates of the transactions;
3. All resulting exchange differences are recognized as a separate component of net assets.

The government entity may use an average exchange rate for the transaction dates, for example, the average rate for the period, to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. The government entity shall not recognize the resulting exchange differences in the statement of financial performance because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. Instead, they are recognized in a separate component of net assets.

With respect to exchange differences related to a foreign operation that is consolidated in the government entity's financial statements but is not wholly owned, the government entity shall allocate the portion of the accumulated exchange differences arising from the translation and attributable to the non-controlling interest and recognize it as part of this interest in the consolidated statement of financial position.

With respect to the translation of the statement of financial performance and the statement of financial position of a foreign operation, the government entity preparing the consolidated financial statements shall apply the procedures from this policy to translate the financial statements of the foreign operation so that it can include them in its consolidated financial statements (using consolidation or the equity method).

The government entity shall apply the procedures mentioned in the "Consolidated Financial Statements" policy, particularly regarding the elimination of inter-entity balances and transactions. However, an intra-group monetary asset or liability, whether short-term or long-term, cannot be eliminated against the corresponding intra-group liability or asset without displaying the results of currency fluctuations in the consolidated financial statements. This is because:

1. The monetary item represents a commitment to convert one currency into another;
2. It exposes the reporting entity to a gain or loss on currency fluctuations.

Accordingly, in its consolidated financial statements, the government entity continues to recognize this exchange difference in the statement of financial performance, classified within net assets until the disposal of the foreign operation.

When the date of the financial statements of a foreign operation is different from that of the government entity preparing the consolidated financial statements, the foreign operation (e.g., a consulate) prepares additional financial statements as of the same date as the government entity's financial statements. When this is not done, the "Consolidated

Financial Statements" policy permits the use of the foreign operation's financial statements at a different date provided that:

1. The difference is no more than three months; and
2. Adjustments are made for the effects of any significant transactions or other events that occur between the different dates.

When the date of the financial statements of a foreign operation is different from that of the government entity, the assets and liabilities of the foreign operation are translated at the exchange rate at the date of the foreign operation's financial statements.

8.2. Disposal of a Foreign Entity

On the disposal (sale or liquidation) of a foreign operation, the cumulative amount of the exchange differences that have been classified in a separate component of net assets shall be recognized in the statement of financial performance in the same period in which the disposal is recognized.

In the case of a partial disposal, a proportionate share of the cumulative amount of the exchange differences that have been classified in a separate component of net assets is included in the statement of financial performance. However, a reduction in the value of the net investment in a foreign operation is not considered a partial disposal, and therefore no part of the cumulative exchange differences is recognized in the statement of financial performance at the date of the write-down.

9. Disclosures

The government entity shall disclose the following:

1. The amount of exchange differences recognized in the statement of financial performance except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with the "Financial Instruments" policy;
2. Net exchange differences classified in net assets as a separate component, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

When the functional currency differs from the presentation currency, this fact shall be disclosed, in addition to disclosure of the functional currency and the reason for using a different presentation currency.

When there is a change in the functional currency (of the reporting government entity or a significant foreign operation), that change and the reason for the change shall be disclosed.

When a government entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with the policy requirements only if they comply with all the requirements of each policy, including the translation method set out.

When a government entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements have not been met, it shall disclose the following:

1. Clearly identify the information as supplementary information to distinguish it from the information that complies with the policy;
2. Disclose the currency in which the supplementary information is displayed;
3. Disclose the government entity’s functional currency and the method of currency translation used to determine the supplementary information.

Accounting Policies Manual

Chapter Seven - Investments and Preparation of Consolidated Financial Statements

Chapter Table of Contents

Overview of Investments and Preparation of Consolidated Financial Statements

This manual includes accounting policies related to establishing the basis for the fair preparation and presentation of separate and consolidated financial statements of the government entity and its investments by addressing the following main topics:

1. Determining the accounting recognition, measurement, and disclosure requirements for the government entity's investments in subsidiary government entities/establishments, joint arrangements, or associates when preparing separate financial reports and specifying the relevant accounting recognition methods;
2. Establishing the basis for preparing and presenting consolidated financial statements and defining the principle of control as the basis for the consolidation of the government entity's financial statements;
3. Explaining the accounting treatment for investments in joint ventures and associates, the basis for their recognition, and the basis for presenting related information, and determining their impact on the government entity's financial statements;
4. Defining joint control and clarifying the basis for classifying joint arrangements and the accounting treatment for the government entity's interests in any joint ventures or joint operations;
5. Determining the disclosure requirements for the government entity's interests in other government entities or other establishments, to facilitate a better understanding of the impact of these interests or investments on the financial position, statement of financial performance, and cash flows of the government entity;
6. Clarifying the principles of reporting and presenting financial information by segments, which helps users of financial statements

to better understand the government entity's performance and main activities, thereby enhancing transparency in the government entity's financial reports.

The following flowchart provides a detailed explanation of the basis for dealing with investments and linking them to the accounting policies of the Government of Ajman:

Start: Does the government entity have control over the other government entity/establishment according to the government's consolidated financial statements policy?

Yes:

Consolidate the other government entity/establishment (subsidiary) according to the consolidated financial statements policy, unless the government entity/establishment is an investment entity.

Disclose according to the policy on disclosure of interests in other government entities or establishments.

No:

Does the government entity have joint control according to the Ajman Government's segment reporting policy?

Yes:

Classify the joint arrangement according to the Ajman Government's segment reporting policy.

Joint Venture:

Record the investment using the equity method according to the policy on investments in associates and joint ventures.

Disclose according to the policy on disclosure of interests in other government entities or establishments.

Joint Operation:

Record assets, liabilities, revenues, and expenses according to the Ajman Government's joint arrangements policy.

Disclose according to the policy on disclosure of interests in other government entities or establishments.

No:

Does the government entity have significant influence according to the government's policy on investments in associates and joint ventures?

Yes:

Record the investment according to the Ajman Government's financial instruments policy.

Disclose according to the policy on disclosure of interests in other government entities or establishments.

No: (End of path)

Definitions

Term	Definition
Decision-makers	The government entity or establishment that has decision-making rights and is either a principal or an agent for other parties.
Segment Assets	Are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.
Relevant Activities	Are activities of the investee that significantly affect the nature or amount of the benefits that the controlling entity receives from its involvement with the investee.

Term	Definition
Segment Revenue	Is revenue reported in the government entity's statement of financial performance that is directly attributable to a segment and the relevant portion of revenue that can be allocated on a reasonable basis to a segment, whether from contributions, grants, transfers, fines, fees, or sales to external customers or from transactions with other segments of the same government entity.
Income from Structured Entities	Includes recurring and non-recurring fees, interest, dividends, and any similar distributions, gains and losses from the remeasurement or derecognition of interests in structured entities, and gains and losses from the transfer of assets and liabilities to the structured entity.
Separate Financial Statements	Financial statements prepared by a specific government entity, in which it presents investments in subsidiary government entities/establishments, associates, and joint ventures using the equity method or at cost. Separate financial statements are identified as those presented in addition to: 1. The consolidated financial statements of the government entity investing in subsidiary government entities/establishments; or 2. The financial statements of the government entity investing in associates; or 3. The financial statements of the government entity investing in joint ventures.
Consolidated Financial Statements	The financial statements of an economic entity in which the assets, liabilities, net assets, revenues, expenses, and cash flows of the controlling government entity and its controlled government

Term	Definition
	entities are presented as those of a single economic entity.
Significant Influence	Is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body, but also, for example, by participation in: 1. The policy-making process; 2. Material transactions between the government entity and the investee; 3. Interchange of managerial personnel; and 4. Dependence on technical information. Significant influence can be obtained through ownership interest or by statute or agreement providing for it.
Joint Arrangement	An arrangement of which two or more parties, a government entity and another establishment, have joint control.
Binding Arrangement	An arrangement that confers enforceable rights and obligations on the parties and secures other legal rights. It can be evidenced in several ways (which may often, but not always, be) in writing, such as a contract or documented minutes of discussions between the parties. Regulatory mechanisms, such as legislative or executive authorities, can also create a binding arrangement similar to contractual arrangements, alone or in conjunction with contracts between the parties.
Segment Liabilities	Are operating liabilities that result from the operating activities of a segment and that either are

<table>
<tr><th>Term</th><th>Definition</th></tr>
<tr><td></td><td>directly attributable to the segment or can be allocated to the segment on a reasonable basis.</td></tr>
<tr><td>Investment Entity / Establishment</td><td>An entity that:
Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
Measures and evaluates the performance of substantially all of its investments on a fair value basis.</td></tr>
<tr><td>Controlling Government Entity</td><td>A government entity that controls one or more subsidiary government entities/establishments.</td></tr>
<tr><td>Subsidiary or Controlled Government Entity/ Establishment</td><td>A government entity/establishment that is controlled by another government entity.</td></tr>
<tr><td>Structured Entity</td><td>Represents a government entity or establishment in which conventional methods are not the basis for determining who has control over this entity/ establishment as follows:
In a case where administrative or legal arrangements may be the determining factor in identifying the controlling entity, the entity/ establishment is structured when this determining factor is not the sole determinant</td></tr>
</table>

Term	Definition
	of the controlling entity, but another factor exists (such as voting rights). 2. In a case where voting rights may be the determining factor in identifying the controlling entity, the entity/establishment is considered structured when this determining factor is not the sole determinant of the controlling entity, but another factor exists (such as administrative and legal arrangements).
Non-controlling Interest	Is that portion of the net assets and net results of operations of a subsidiary that is not owned directly or indirectly by the controlling government entity.
Interest in Another Government Entity/ Establishment	Refers to involvement in binding arrangements that exposes the government entity to a range of benefits from the performance of another entity/ establishment. An interest in another entity/ establishment can be evidenced by holding equity or debt instruments, or by providing financing, liquidity, credit enhancement, or guarantees, among other things. An interest in another entity/establishment includes the means by which the government entity exercises control, joint control, or significant influence over another entity/establishment. A government entity is not considered to have an interest in another entity/ establishment simply because of a customer-supplier relationship or a funder-recipient relationship between the government entity and the other entity/establishment.
Removal Rights	Rights to deprive the decision-maker of its decision-making authority.
Protective Rights	

Term	Definition
	Rights designed to protect the interests of the party holding them without giving that party power over the entity to which those rights relate.
Power	Consists of existing rights that give the current ability to direct the relevant activities of another entity/establishment.
Control	A government entity is considered to have control (over another government entity/establishment) when it has rights to, or is exposed to, variable benefits from its involvement with the other government entity/establishment and has the ability to affect the nature or amount of those benefits through its power over that other government entity/establishment.
Joint Control	Is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
Party to a Joint Arrangement	Is any party to the joint arrangement, regardless of whether that party shares control with the second party or other parties to the arrangement.
Equity Method	Is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the net assets/equity of the associate or joint venture. The surplus or deficit of the investor includes its share of the surplus or deficit of the investee and the net assets of the investor includes its share of the change in the net assets/equity of the investee that has not been recognized in the surplus or deficit of the investee.

Term	Definition
Segment	Is an activity or group of similar activities for which it is appropriate to report separate financial information for the purposes of evaluating performance, assessing the achievement of its objectives, and making decisions about the future allocation of resources.
Geographical Segments	A "geographical segment" is a segment engaged in providing related outputs or achieving certain operating objectives within a particular geographical area.
Service Segments	A "service segment" refers to a segment engaged in providing related outputs or achieving certain operating objectives that are consistent with the overall mission of the government entity.
Economic Entity	Consists of the controlling government entity and its subsidiary government entities/establishments.
Separate Vehicle	Is any project, establishment, or government entity resulting from a joint arrangement and having a separate financial structure, regardless of its legal status.
Joint Venturer	Is a party that has joint control of a joint venture.
Joint Venture	Is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Segment Expense	Is an expense resulting from the operating activities of a segment that is directly attributable to the segment, or the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties

Term	Definition
	and expenses relating to operations with other segments of the same government entity.
Upstream Transactions	Are transactions that arise from the associate or joint venture to the investing government entity, such as the sale of assets.
Downstream Transactions	Are transactions that arise from the investing government entity to its associate or joint venture, such as the sale of assets.
Benefits	Are advantages obtained by a government entity as a result of its participation with other entities. These benefits can be financial or non-financial.
Associate	Is an entity over which the investor has significant influence.
Cost Method	The cost method is a method used where the investor recognizes the investment at cost and recognizes any dividends in the income statement.

Policy 24 - Separate Financial Statements

Table of Contents for Separate Financial Statements Policy

1. Policy Objective

This policy addresses the following main topics:

1. Requirements for preparing separate financial statements and the basis for evaluating and presenting investments in subsidiary government entities/establishments, associates, and joint ventures;
2. Necessary disclosures to be included in the separate financial statements, particularly concerning the investments mentioned above.

2. Scope

This policy applies when a government entity prepares separate financial statements.

A government entity may choose to present only separate financial statements if all of the following conditions are met:

1. Exemptions from presenting consolidated financial statements as mentioned in the "Consolidated Financial Statements" policy;
2. Exemptions from using the equity method as mentioned in the "Investments in Associates and Joint Ventures" policy.

3. Preparation of Separate Financial Statements

The government entity must prepare separate financial statements based on all the requirements of the Ajman Government's accounting policies, taking into consideration that the government entity shall recognize similar investments in subsidiary government entities/establishments, joint ventures, and associates, using the most appropriate method from the following:

1. The equity method ("Investments in Associates and Joint Ventures" policy); or
2. At cost.

<u>Investment Government Entities</u>

For investment government entities, Annex 1 includes more detailed information on the conditions and controls related to the preparation of separate financial statements by these entities.

Non-Investment Government Entities

Regarding a government entity (which is not an investment government entity) that controls an investment government entity, this entity, when preparing separate financial statements, shall account for the investments resulting from its control over the investment government entity based on the same principles mentioned in Annex 1 of the "Consolidated Financial Statements" policy.

When a controlling government entity becomes or ceases to be an investment government entity, in these cases, the government entity records the effect of the change on the date it occurs as follows:

1. When it ceases to be an investment government entity, the government entity records the investments. The date of change is considered the "date of acquisition," and the fair value of the investment is the deemed cost on the date of acquisition;
2. When a government entity becomes an "investment government entity," it must record investments using the fair value through surplus or deficit method, as outlined in the "Financial Instruments" policy (with reference to Annex 1 of this policy). The difference between the carrying amount of the investment and its fair value on the date the change occurs is recorded in the statement of financial performance. Any cumulative amounts (gains or losses) previously recorded in a separate component of net assets in the statement of financial position for the period in which the change occurred are also recorded.

The government entity records dividends or similar distributions received from subsidiaries, associates, and joint ventures in the separate financial statements when they are due. Dividends from shares are recorded in the government entity's statement of financial performance, unless the entity has adopted the equity method, in which case it records such distributions as a reduction from the carrying amount of the investment.

When a government entity controlling investments restructures the group (the economic entity) by establishing a new government entity that becomes the controller of the controlling government entity by:

> ✓ Issuing equity instruments (shares) in exchange for net asset instruments (shares) of the controlling government entity (as applicable);
> ✓ Other mechanisms resulting in the new government entity controlling the controlling government entity;

The group existing before the restructuring and the group following the establishment of the new government entity include the same assets and liabilities; there has been no change in the absolute and relative benefits from the group's net assets to the parties controlling the group, before and after the restructuring.

In this case, the newly established government entity (the new controlling government entity) records the investments in the formerly controlling government entity at cost.

4. Disclosures

When disclosing separate financial statements, the government entity applies all the requirements of the Ajman Government's accrual accounting policies. This is in addition to the disclosures mentioned in this policy.

When a controlling government entity uses the exemption in the "Consolidated Financial Statements" policy, choosing not to prepare consolidated financial statements and instead preparing separate financial statements, the government entity in this case discloses the following:

1. A statement that the prepared financial statements are "separate financial statements," and that the government entity has used the exemption related to not preparing consolidated financial statements, and discloses the name of the government entity that prepared the consolidated financial statements, and the address from which these consolidated financial statements can be obtained;

2. A list of significant investments in subsidiary government entities/ establishments, associates, and joint ventures, including:
   - ✓ The names of these subsidiary government entities/ establishments, associates, and joint ventures;
   - ✓ The legal framework followed by these subsidiary government entities/establishments, associates, and joint ventures (if they have frameworks different from that of the controlling government entity);
   - ✓ The percentage of ownership the government entity has in these investments and a description of the basis used to determine this percentage;
3. A description of the method adopted for recording the investments mentioned above.

Regarding a government entity (which is not an investment government entity) that controls an investment government entity, and which is required to account for investments at fair value through surplus or deficit, in a manner consistent with the principles followed when preparing consolidated financial statements (refer to Annex 1 of the "Consolidated Financial Statements" policy), this entity discloses this in the separate financial statements and must also apply the disclosure requirements mentioned in the "Disclosure of Interests in Other Establishments" policy.

Appendix 1: Controls for Preparing Separate Financial Statements for Government Investment Entities

Government investment entities are not required to consolidate their investments; instead, they recognize and measure these investments at fair value in accordance with the requirements of the "Financial Instruments" policy.

Consequently, when a government investment entity measures investments using fair value through surplus or deficit (referring to the "Financial Instruments" policy), it must account for these investments using the same method when preparing separate financial statements.

Regarding disclosures, when a government investment entity prepares only separate financial statements (without preparing consolidated financial statements), it must disclose this fact. It must also apply the disclosure requirements mentioned in the "Disclosure of Interests in Other Entities" policy.

Policy 25 - Consolidated Financial Statements

Table of Contents for the Consolidated Financial Statements Policy

1. Objective of the Policy

This policy aims to establish the principles for the preparation and presentation of consolidated financial statements when a government entity has control over another government entity/enterprise or a number of other government entities/enterprises.

This policy addresses the following topics related to consolidated financial statements:

1. Defining the principle of control and identifying control as the basis for consolidation of financial statements;

2. How to apply the principle of control to determine if a government entity has control and, therefore, must consolidate the financial statements;
3. The accounting requirements for preparing consolidated financial statements;
4. Defining a government investment entity and specifying the exception from consolidating certain subsidiaries (Appendix 1).

2. Scope

This policy applies to government entities covered by the application of the Ajman Government's Accrual Accounting Policies Manual, which prepare and present consolidated financial statements, except for those controlling government entities that are not required to present consolidated financial statements when all of the following conditions are met:

1. The controlling government entity's financial instruments are not traded in public financial markets;
2. The government entity has not filed or is in the process of filing its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market;
3. A higher-level controlling entity presents publicly available financial statements in accordance with the Ajman Government's accrual accounting policies, and the needs of the financial statement users are met by the higher-level controlling government entity's financial statements.

The exception from preparing consolidated financial statements in the preceding paragraph does not apply if the needs of the users of the controlling government entity's information are not met by the consolidated financial statements of the higher-level controlling government entity. For example, consolidated financial statements at the government level may not meet the information needs of users regarding certain sectors or activities carried out by a particular government entity.

A controlling government entity that is classified as an investment entity is not required to present consolidated financial statements if it measures its subsidiaries using the fair value through surplus or deficit model in accordance with this policy (Appendix 1).

Example: Exception to preparing consolidated financial statements

Government Entity A controls Government Entity B and Enterprise C as follows:

Government Entity A
↓
Government Entity B
↓
Enterprise C

✓ Government Entity A controls Government Entity B, and Government Entity B controls Enterprise C;
✓ Government Entities A and B and Enterprise C have not filed or are in the process of filing their financial statements with a securities commission or other regulatory organization, and none of their related instruments are traded in public markets;
✓ Government Entity A prepares its consolidated financial statements in accordance with this policy and makes them publicly available on its website.

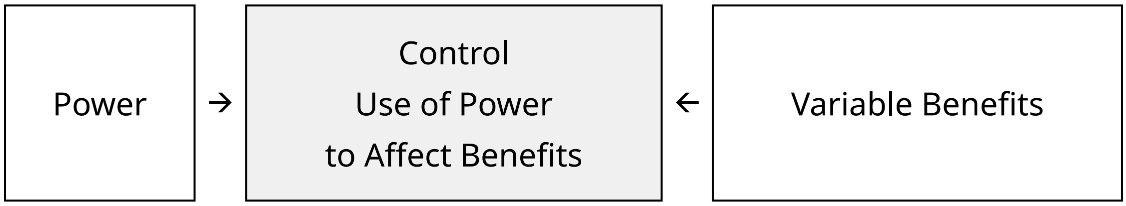
If Government Entity A does not require its subsidiary, Government Entity B, to prepare consolidated financial statements, and all owners of Entity B (only Entity A in this example) agree that Entity B will not prepare consolidated financial statements, then Government Entity B is not required to prepare consolidated financial statements.

3. Control

A government entity is considered to have control over another government entity/enterprise when it has rights to, or is exposed to, variable benefits from its involvement with the other government entity/ enterprise and has the ability to affect the nature or amount of those benefits through its power over the relevant government entity/enterprise.

A government entity is considered a controlling entity only when all of the following conditions are met:

1. It has power over the other government entity/enterprise;
2. It has rights to, or is exposed to, variable benefits from its involvement with the other government entity/enterprise;
3. The government entity's ability to use its power over the other government entity/enterprise to significantly affect the nature or amount of the benefits from its involvement with the other government entity/enterprise.



A government entity shall consider the following factors when determining the existence of control over another government entity/enterprise:

1. The purpose and design of the other government entity/enterprise;
2. The nature of the relevant activities and how decisions about those activities are made;
3. Whether the government entity's rights give it the ability to direct and significantly influence the activities of the other government entity/enterprise;
4. That the government entity has rights to, or is exposed to, variable benefits from its involvement with the other government entity/enterprise;
5. The government entity's ability to use its power over the other government entity/enterprise to affect the nature or amount of the benefits that accrue to that government entity.

3.1. Power

A government entity has power over another government entity/enterprise when it has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits that accrue to that government entity through its involvement with the relevant government entity/enterprise.

Relevant activities depend on the nature of the business of the concerned government entity/enterprise and may include, for example:

1. Selling and purchasing goods and services;
2. Collecting revenue from non-exchange transactions;
3. Managing financial assets;
4. Acquiring and disposing of assets;
5. Financing activities;
6. Research and development.

Power usually comes from rights. In some cases, determining power is straightforward (for example, when a government entity's power results from voting rights from owning shares in an enterprise). A government entity can also demonstrate power through binding arrangements, and these arrangements can include rights for a government entity to control the assets or liabilities of another government entity/enterprise, which may affect the nature or amount of the benefits accruing to the government entity. Assessing the rights resulting from such binding arrangements can be more complex and several factors must be considered when determining the existence of power.

The following are some examples of rights that can result in power:

1. Rights to direct the governing body of another entity/enterprise, enabling control over the activities of that other entity/enterprise;
2. Voting rights, through which the activities of the government entity/enterprise can be controlled;
3. Rights to appoint and remove key management personnel who have the authority and responsibility to direct the relevant activities;
4. Veto rights for major changes to the other government entity/enterprise, for example, the sale of major assets.

Example: Relevant Activities

A government entity has the right to appoint and remove the majority of the members of the senior management board of another enterprise, to whom the authority and responsibility for directing the relevant activities of the enterprise are delegated. The government entity has used similar rights over similar enterprises in the past but has not used them on this particular enterprise because it does not wish to interfere with its current activities.

Although the government entity chooses not to exercise these rights, the government entity's rights are substantive and it has power over the enterprise concerned.

The existence of rights over another government entity/enterprise does not necessarily lead to power for the purposes of this policy. The existence of the following factors alone does not establish power over the concerned government entity/enterprise:

1. Regulatory oversight; or
2. Economic dependence.

Regulatory oversight usually does not lead to power over an entity/enterprise for the purposes of this policy. Some other government entities may have broad powers to set the regulatory framework and impose conditions or penalties on the operations of entities/enterprises operating within the regulatory framework (for example, imposing laws to protect public health and safety, preventing the sale or use of hazardous goods, or setting pricing policies for certain sectors). However, when regulatory control dictates how the entity/enterprise conducts its business, it may be necessary to consider whether the purpose and design of that entity/enterprise make it a subsidiary.

Economic dependence in itself does not imply the existence of power as defined in this policy. A government entity/enterprise can be considered economically dependent when:

1. It has one major client whose loss could affect the continuity of this government entity/enterprise's business.
2. The activities of the government entity/enterprise are funded solely through donations and grants, and most of those donations and grants come from a single source.

When more than one government entity has rights to direct the relevant activities of another enterprise, power is determined by the government entity that has rights in the activities that most significantly affect the nature or amount of the benefits derived from that enterprise.

When assessing control, a government entity may have power over another enterprise, even if other parties who have rights in the enterprise have rights that allow them to participate in directing the relevant activities of the enterprise concerned. However, on the other hand, a government entity that holds only protective rights is not considered to have power, and therefore does not control the enterprise concerned.

Examples of Protective Rights

Examples of protective rights include the following:

1. The right of a government entity that grants a loan to prevent the borrowing government entity/enterprise from undertaking activities that have a significant adverse effect on credit risk.

1. The right of a government entity with a non-controlling interest in an enterprise to approve capital expenditures that are outside the ordinary course of business, or to approve the issuance of financial instruments.
2. The right of a government entity that grants a loan to acquire the borrower's assets in the event of the borrower's non-compliance with the loan repayment terms.
3. The right to change and appoint members of the governing body in another government entity/enterprise.

3.2. Benefits

When assessing control, a government entity is considered to be exposed to, or have rights to, variable benefits when the benefits it seeks through its involvement with another government entity/enterprise may change based on the performance of that other government entity/enterprise. The government entity's benefits from its involvement with another government entity/enterprise may be financial, non-financial, or both.

Financial benefits include:

✓ Dividends, variable interest, debt instruments, and other distributions related to economic benefits;

- ✓Exposure to an increase or decrease in the value of the investment in another government entity/enterprise;
- ✓Exposure to loss from agreements for financial support, including support for large projects;
- ✓Cost savings (e.g., by integrating the government entity's transactions or assets with those of the concerned government entity/enterprise);
- ✓Residual interests in the assets and liabilities of the concerned government entity/enterprise after its liquidation.

Non-financial benefits include:

- ✓The ability to benefit from the special expertise of the concerned government entity/enterprise;
- ✓The value to the government entity from the activities of the government entity/enterprise that help achieve its objectives in line with its own objectives;
- ✓More efficient production of goods and provision of services;
- ✓Acquiring an asset or services more effectively;
- ✓Obtaining higher quality of service.

3.3. Link between Power and Benefits

A government entity is not considered to have control over another government entity/enterprise merely by having power and rights to, or exposure to, variable benefits from its involvement with the other government entity/enterprise, but also when it has the ability to affect the nature or amount of those benefits by using its power over the other government entity/enterprise.

The mere existence of aligned objectives is not sufficient for a government entity to have control over another. For a government entity to have control, it must have the power to direct the objectives of the concerned government entity/enterprise to increase or maintain the alignment of objectives.

A government entity with decision-making rights must determine whether it is an agent or a principal, and must also determine the existence of another government entity/enterprise that has decision-making rights which might be considered an agent of the government entity. This is because an agent is a party that acts on behalf of and for the benefit of a principal, and therefore the agent is not considered to have control over another government entity/enterprise when it exercises decision-making authority, because this authority is the principal's authority, not the agent's.

4. Accounting Requirements

The controlling government entity shall prepare consolidated financial statements using uniform accounting policies for similar transactions and events in similar circumstances. If a government entity/enterprise in the group uses accounting policies that differ from those adopted in the consolidated financial statements, appropriate adjustments are made to the financial statements of that government entity/enterprise when preparing the consolidated financial statements in accordance with the group's uniform accounting policies.

Consolidation of financial statements begins from the date the government entity obtains control and ends when the government entity loses that control.

4.1. Consolidation Procedures

The following steps are considered when preparing consolidated financial statements:

1. Combining similar items of assets, liabilities, net assets, revenue, expenses, and cash flows of the controlling entity and its subsidiaries;
2. Eliminating the carrying amount of the controlling government entity's investment in its subsidiaries and the controlling entity's share of the net assets of each subsidiary;
3. Eliminating all assets, liabilities, net assets, revenue, expenses, and cash flows resulting from intragroup transactions.

4.2. Measurement

The government entity shall account for the revenue and expenses of the subsidiary government entity/enterprise within the consolidated financial statements from the date it obtains control over the other government entity/enterprise until the date it loses that control. The revenue and expenses of the subsidiary government entity/enterprise are calculated based on the amounts of assets and liabilities recognized in the consolidated financial statements as of the acquisition date. For example, depreciation recognized in the statement of financial performance after the acquisition date is calculated based on the value of depreciable assets recognized in the consolidated financial statements as of the acquisition date.

4.3. Potential Voting Rights

When potential voting rights or other financial instruments containing potential voting rights exist, the proportion of surplus or deficit and changes in net assets allocated to the controlling government entity and minority interests when preparing consolidated financial statements is determined on the basis of existing ownership and not on the possibility of exercising or converting potential voting rights and other financial instruments.

In some cases, a government entity may have potential voting rights, which enable the government entity to obtain substantive rights related to its ownership. In this case, when determining the proportion allocated to both net assets and minority interests in the preparation of consolidated financial statements, the exercise of potential voting rights and other financial instruments that grant the government entity those benefits must be taken into account.

4.4. Reporting Date

When preparing consolidated financial statements, the separate financial statements (of the subsidiary government entities/enterprises) used for consolidation must be prepared as of the same date. When the reporting date of the controlling government entity differs from that of the subsidiary government entity/enterprise, the controlling government entity shall either:

1. Obtain, for consolidation purposes, additional financial information as of the date of the controlling government entity's financial statements; or
2. Use the most recent financial statements of the subsidiary government enterprise after adjusting for the effect of significant

transactions and events that occurred between the date of those financial statements and the date of the consolidated financial statements.

4.5. Non-controlling Interest

The controlling government shall present the non-controlling interest in the consolidated financial statements within net assets separately from the net assets of the shareholders of the controlling government entity.

The government entity shall allocate the surplus or deficit and each profit or loss between the net assets of the shareholders of the controlling government entity and the non-controlling interest. The government entity shall also attribute the total amount recorded in the statement of changes in net assets to the shareholders of the controlling government entity and to the non-controlling interest.

If a subsidiary government entity/enterprise has cumulative preference shares classified as equity instruments owned by the non-controlling interest, the government entity/enterprise shall calculate its share of surplus or deficit after adjusting for distributions, whether or not these distributions have been declared.

When the proportion of net assets held by the non-controlling interest changes, the government entity must adjust the carrying amount of the net assets and the non-controlling interest to reflect the changes in its relative share in the subsidiary government entity/enterprise. The government entity must recognize directly in net assets any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received, pertaining to the entity that owns the controlling government entity (such as the government).

4.6. Loss of Control

If the controlling government entity loses control of a subsidiary government entity/enterprise, the controlling government entity must:

1. Derecognize the assets and liabilities of the former subsidiary government entity/enterprise from the consolidated financial statements;

2. Recognize any investment retained in the former subsidiary government entity/enterprise at its fair value when control is lost, in addition to amounts due from or to the former subsidiary government entity/enterprise in accordance with the appropriate government accrual accounting standard. This value is considered the fair value upon initial recognition of financial assets in accordance with the "Financial Instruments" policy or the cost upon initial recognition of an investment in associates or joint arrangements;
3. Record the profit or loss resulting from the loss of control attributable to the net assets of the controlling government entity.

A controlling government entity may lose control of a subsidiary government entity/enterprise through multiple arrangements (transactions), but sometimes multiple arrangements must be recorded as a single transaction. The controlling government entity must consider all terms and conditions of the arrangements and their economic effects to determine whether the multiple arrangements should be recorded as a single transaction. The following factors may indicate that the controlling government entity should record the multiple arrangements as a single transaction:

1. The arrangements were entered into at the same time or in close proximity;
2. The arrangements form a single transaction designed to achieve an overall commercial objective;
3. The occurrence of one arrangement depends on the occurrence of at least one other arrangement;
4. Considering a single arrangement alone does not justify the economic aspect of the transaction, and it is justified only if considered in conjunction with other arrangements. An example is when the disposal of an investment is priced below market price and is compensated by a subsequent disposal at a price above market price.

If the controlling government entity loses control of a subsidiary government entity/enterprise, it must do the following:

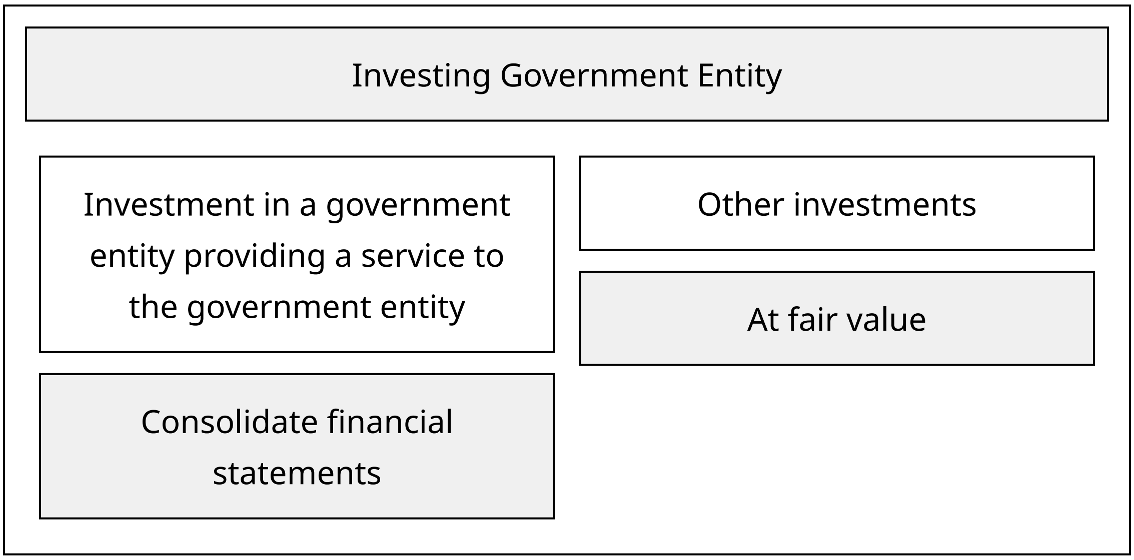
1. Derecognize:
   - ✓ Assets (including goodwill, if any) and liabilities of the former subsidiary government entity/enterprise at their carrying amount on the date control is lost;
   - ✓ The carrying amount of any non-controlling interest related to the former subsidiary government entity/enterprise on the date control is lost (including any profit or loss recorded directly in net assets related thereto).
2. Record:
   - ✓ The fair value of the consideration received, if any, from the transaction, event, or circumstances that led to the loss of control;
   - ✓ Distributions, if the transaction, event, or circumstances that led to the loss of control include a distribution of shares of the subsidiary government entity/enterprise to shareholders in their capacity as shareholders;
   - ✓ Any investment retained in the former subsidiary government entity/enterprise at its fair value on the date of loss of control.
3. Record any resulting difference as a profit or loss in the surplus or deficit attributable to the controlling government entity.

Appendix -1 - Government Investment Entities/Enterprises: Fair Value Requirements

Except as stated below, a government investment entity shall not consolidate the government entities/enterprises it controls. The government investment entity shall measure the investment in a subsidiary government entity/enterprise at fair value through surplus or deficit in accordance with the "Financial Instruments" policy.

If the government investment entity owns a non-investment subsidiary government entity/enterprise whose main purpose and activities are to provide services related to the activities and services of the government investment entity, the investment entity must consolidate this subsidiary government entity/enterprise.

The following diagram shows the basis for accounting for investments by the investing government entity.



A government entity that controls another investment government entity/ enterprise must prepare consolidated financial statements where it:

1. Measures the investments of the subsidiary investment government entity/enterprise at fair value through surplus or deficit in accordance with the "Financial Instruments" policy;
2. Consolidates the other assets, liabilities, expenses, and revenues of the subsidiary investment government entity/enterprise in accordance with this policy.

Determining whether a government entity/enterprise is considered an investment entity

A government entity shall consider all facts and circumstances when assessing whether a government entity/enterprise is an investment entity, in addition to its purpose and design. If facts and circumstances indicate that there has been a change to one or more of the three elements that constitute the definition of a government investment entity/enterprise, the controlling government entity must reassess whether it is considered an investment government entity/enterprise.

A controlling government entity/enterprise that no longer meets the specifications of an investment entity or has become an investment entity must record this change prospectively from the date it occurs.

An investment entity must disclose information about significant judgments and assumptions made in determining whether it is an investment entity, unless it has the following characteristics:

1. It obtained funds from more than one investor;
2. It holds interests in the form of equity or similar rights;
3. It holds more than one investment.

Policy 26 - Investments in Associates and Joint Ventures

Table of Contents for the Policy on Investments in Associates and Joint Ventures

1. Objective of the Policy

The objective of this policy is to describe the accounting treatment for investments in associates or joint ventures. This policy also clarifies the requirements for applying the equity method when accounting for these investments.

2. Scope

This policy provides a basis for accounting for measurable net asset shares in associates and joint ventures, including net asset shares resulting from investments in a systematic capital structure of another entity, which means capital shares or equivalent capital. Measurable net asset shares may include equity shares resulting from other investments in which the government entity can reliably measure its ownership.

3. Significant Influence

Determining whether an investing government entity has significant influence over an investee entity is based on the nature of their relationship and the definition of significant influence in this section, and therefore it is a matter of judgment.

It is presumed that an investing government entity has significant influence over an investee entity if it holds a measurable ownership interest, directly or indirectly through controlled government entities or enterprises, equal to 20% or more of the voting rights in the investee entity, unless there is clear evidence to the contrary. Conversely, if the preceding conditions exist except for the ownership interest percentage being less than 20% in the investee entity, it is presumed that the government entity does not have significant influence, unless there is clear evidence to the contrary. It should be noted that the ownership by another investor of a large proportion or a majority of the equity rights in the investee entity does not prevent the investing government entity from having significant influence.

Government entities determine whether they have significant influence over investee entities through the existence of one or more of the following indicators:

1. Representation on the board of directors or any similar governing body in the investee entity;
2. Participation in the policy-making process, including participation in decisions regarding dividends and similar distributions;
3. The existence of material transactions between the investing government entity and the investee entity;
4. Exchange of management expertise between the investing government entity and the investee entity; or
5. Provision of significant technical information by the investing government entity to the investee entity.

The government entity must also consider potential voting rights that are currently exercisable or convertible for all investors in an entity when assessing whether it has significant influence over it. The ownership of any debt or equity instruments that can be exercised or converted into ordinary shares or other similar instruments has the potential to grant the government entity additional voting rights over the financial and operating policies of the investee entity or to reduce the voting rights of another investor if exercised or converted. Potential voting rights are considered not currently exercisable or convertible when they cannot be exercised or converted until a specific future date or until a future event occurs.

The government entity must examine all facts and circumstances that affect potential voting rights, including considering the conditions for exercising these rights and any other binding arrangements considered individually or together, except for the intentions of management and the financial ability of the government entity to exercise and convert these rights when assessing whether these rights contribute to significant influence over the investee entity.

Example: Determining Significant Influence

Government Entity (A) owns 100% of the ordinary shares that carry voting rights in Enterprise (B) and controls it.

Government Entity A

↓

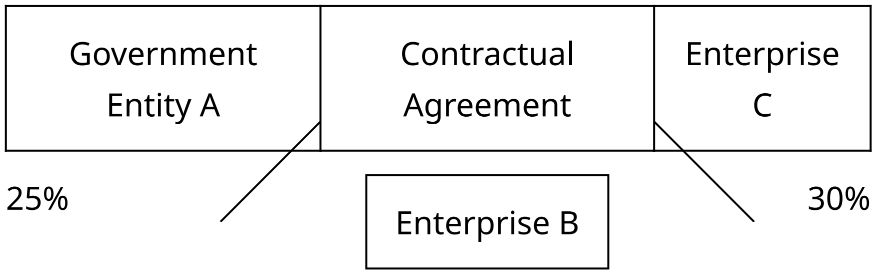
Enterprise B

Determining Significant Influence:

Government Entity (A) does not have significant influence over Enterprise (B); rather, it controls it. Therefore, Government Entity (A) must consolidate Enterprise (B) in its group financial statements (see "Consolidated Financial Statements" policy).

Example: Determining Significant Influence

Government Entity (A) owns 25% of the ordinary shares that carry voting rights in Enterprise (B), and Enterprise (C) owns 30% of the ordinary shares that carry voting rights in Enterprise (B). Government Entity (A) and Enterprise (C) have contractually agreed to have joint control over Enterprise (B).



Determining Significant Influence:

Government Entity (A) does not have significant influence over Enterprise (B); it has joint control over Enterprise (B). Government Entity (A) must account for Enterprise (B) in its group financial statements according to the requirements of the "Joint Arrangements" policy.

Example: Determining Significant Influence

Government Entity (A) owns 25% of the ordinary shares that carry voting rights in Enterprise (B). Government Entity (A) does not control Enterprise (B) and does not have joint control over it.

Government Entity A

↓ 25%

Enterprise B

Determining Significant Influence:

It is presumed that Government Entity (A) has significant influence over Enterprise (B) (i.e., Enterprise (B) is an associate of Government Entity (A)) in the absence of evidence to the contrary. However, it should be noted that concluding significant influence based on Government Entity (A)'s 25% ownership in Enterprise (B) is not automatic, and judgment must be exercised. Government Entity (A) may not have significant influence over Enterprise (B) despite owning 25% of the voting rights.

If it is determined that Government Entity (A) does not have significant influence over Enterprise (B), then the investment in the ordinary shares of Enterprise (B) is accounted for as a financial asset (see "Financial Instruments" policy).

Example: Determining Significant Influence

Government Entity (A) owns all the ordinary shares that carry voting rights in Government Entity (B), and Government Entity (B) owns 25% of the ordinary shares that carry voting rights in Enterprise (C). The group of Government Entity (A) (i.e., Government Entity (A) and its subsidiary Government Entity (B)) does not control and does not have joint control over Enterprise (C).

Government Entity A

↓ 100%

Government Entity B

↓ 25%

Enterprise C

Determining Significant Influence:

It is presumed that Government Entity (A) has significant influence over Enterprise (C) (i.e., Enterprise (C) is an associate of Government Entity (A)) in the absence of evidence to the contrary. However, it should be noted that concluding significant influence based on Government Entity (A)'s 25% indirect ownership in Enterprise (C) is not automatic, and judgment must be exercised. Government Entity (A) may not have significant influence over Enterprise (C) despite owning 25% of the voting rights.

If it is determined that Government Entity (A) does not have significant influence over Enterprise (C), then the investment in the ordinary shares of Enterprise (C) is accounted for as a financial asset (see "Financial Instruments" policy).

4. Application of the Equity Method

An investing government entity that has joint control or significant influence over an investee entity must account for its investment in an associate or joint venture using the equity method, except for investments eligible for exemption.

4.1. Equity Method Procedures

The economic entity's share in an associate or joint venture is equal to the total investments of the controlling government entity and its controlled entities in the associate or joint venture. The surplus or deficit and net assets taken into account in applying the equity method are those recognized in the financial statements of the associate or joint venture, including the associate's or joint venture's share of the surpluses or deficits and net assets of its associates or joint ventures, after any necessary adjustments to conform accounting policies, when the associate or joint venture has controlled entities, associates, or joint ventures.

Profits and losses resulting from upstream and downstream transactions between the government entity (including its consolidated controlled government entities or enterprises) and its associate or joint venture are recognized in its financial statements only to the extent of the interests of unrelated investors in the associate or joint venture, as its share in these losses or profits is eliminated.

If there is evidence of impairment of the recoverable amount of assets to be sold, contributed, or purchased, or of impairment losses on those assets, the investing government entity must:

1. In the case of downstream transactions: recognize the losses in full;
2. In the case of upstream transactions: recognize its share of those losses.

Non-cash assets contributed to an associate or joint venture in exchange for equity shares in it are accounted for except in cases where such contributions lack commercial substance, a term defined in the "Property, Plant, and Equipment" policy. The loss or gain from contributions lacking commercial

substance is unrealized and is not recognized unless the subsequent paragraph applies and is eliminated against the investment accounted for using the equity method and is not presented as a deferred loss or gain in the consolidated statement of financial position of the government entity or the statement of financial position of the government entity in which the investments are accounted for using the equity method.

Example: Receipt of non-cash assets in exchange for equity shares in an associate or joint venture

Government Entity (A) contributed a non-cash asset in exchange for a 55% equity interest in Joint Venture (B), and the transaction had commercial substance. The carrying amount of the asset was AED 10,000, and its fair value was AED 12,000.

Recognition of the gain arising from the transaction between Government Entity (A) and Joint Venture (B):

(1) Calculate the total gain from the transaction:

12,000 – 10,000 = AED 2,000 gain from the contribution of the asset to Joint Venture (B).

(2) Calculate Government Entity (A)'s share of the gain from the transaction to the extent of the interests of unrelated investors:

2,000 × 45% = AED 900, Government Entity (A)'s share of the gain.

The investment is accounted for using the equity method from the date it becomes an associate or joint venture. Any difference between the cost of the investment and the government entity's share in the net fair value of the investee's identifiable assets and liabilities at the time of purchase is accounted for as follows:

1. The government entity is not permitted to amortize goodwill related to an associate or joint venture when it is included in the carrying amount;
2. The government entity adds any excess of its share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment as revenue for the purpose of determining its share in the surplus or deficit of the associate or joint venture for the period in which the investment was held.

Example: Adjustments to the government entity's share in the surplus or deficit of the associate or joint venture

Necessary adjustments are made to the government entity's share in the surplus or deficit of the associate or joint venture after the purchase, for example:

- ✓Accounting for the depreciation of depreciable assets based on their fair values at the date of purchase.
- ✓Calculating impairment losses such as for property, plant, and equipment, and goodwill (where applicable).

The latest available financial statements of the associate or joint venture are used by the government entity when applying the equity method. When the end of the reporting period of the government entity is different from that of the associate or joint venture, the government entity must do the following:

1. Obtain additional financial information as of the same date as the government entity's financial statements for the purpose of applying the equity method; or
2. Use the latest available financial statements of the associate or joint venture adjusted for the effect of significant transactions or events that occurred between the date of those financial statements and the date of the government entity's financial statements.

A government entity's financial statements shall be prepared using uniform accounting policies for similar transactions and other events in similar circumstances. Accordingly, the government entity shall make adjustments to make the accounting policies for similar transactions and events in similar circumstances uniform between it and the associate or joint venture for the purpose of using their financial statements to apply the equity method, except as stated in the paragraph below.

Except for an associate or a joint venture that meets the definition of a government entity/investment entity (refer to Appendix 1 of the "Consolidated Financial Statements" policy), in which case the government entity shall retain the fair value measurement applied by the associate or joint venture to their investments in controlled entities.

The government entity shall cease recognizing its share of losses that occur after its share in the deficit of an associate or joint venture equals or exceeds its investment in those entities. The investment in an associate or joint venture is defined by its carrying amount determined using the equity method plus any long-term interests that, in substance, form part of the government entity's net investment in the associate or joint venture. The deficit recognized using the equity method that exceeds the government entity's investment in the ordinary shares of the associate or joint venture is applied to the other components of the government entity's investment in reverse order of their seniority (priority in liquidation).

Example: Long-term interests that, in substance, form part of the net investments in an associate or a joint venture

Long-term interests that, in substance, form part of the net investment in an associate or a joint venture include any item for which settlement is neither planned nor likely to occur in the foreseeable future and which, in substance, is an extension of the government entity’s investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables, or any long-term receivables that are adequately secured, such as secured loans.

Example: Application of deficit recognized using the equity method that exceeds the investment in an associate or a joint venture

Government Entity (A) owns 25% of the ordinary shares that carry voting rights in Entity (B), where Entity (B) is considered an associate of Government Entity (A).

The net assets of Entity (B) at the beginning of the year were zero, but it incurred a deficit during the year of AED 50,000, resulting in net liabilities of the same amount at the end of the year. Government Entity (A) financed the deficit with an unsecured long-term loan of AED 20,000. Accordingly, the net liabilities include the loan as well as long-term receivables for service fees provided by Government Entity (A) amounting to AED 10,000.

Application of the recognized deficit that exceeds the investment in the associate (B):

1. Determine Government Entity (A)'s share of the deficit of associate (B):
50,000 × 25% = AED 12,500 to be applied to Government Entity (A)'s investment in associate (B).
2. Determine the long-term interests that, in substance, form part of the net investment in associate (B):

Government Entity (A) must assess whether the loan granted and the receivables from associate (B) in substance form part of the net investment in associate (B). The assessment is as follows:

1. For the loan granted, the maturity date of the loan is not a sufficient reason to consider it part of the investment if the loan is long-term, as the substance of the financing provided must be considered. For example, management may not currently intend to settle the loan on the specified maturity date and has no plans to settle it. Therefore, the loan is considered part of the investment (which is assumed for the purpose of this example).
2. For the receivables, if management has no plans to settle them currently or in the near future, they are considered part of the investment (which is assumed for the purpose of this example).

3. Rank the other components of the investment in associate (B) according to their priority in liquidation:
For the purpose of this example, it is assumed that the receivables are due for payment before the granted loan (priority in liquidation). Accordingly, the deficit is applied to the receivables first and then to the loan.
4. Apply the deficit to the other components of the investment in associate (B) for reporting in the financial statements of Government Entity (A) at the reporting date:
    1. Long-term receivables = 10,000 – 10,000 = AED 0
    Remaining deficit = 12,500 - 10,000 = AED 2,500
    2. Unsecured long-term loan = 20,000 – 2,500 = AED 17,500

A provision is made for the additional deficit after reducing the government entity's investment to zero, where the liability is recognized only to the extent that the government entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports a surplus, the government entity resumes recognizing its share of that surplus only after its share of the surplus equals its share of the unrecognized deficit.

4.2. Recognition

The investment of a government entity in an associate or a joint venture is determined based on the existing ownership (investment) only and does not reflect the possible exercise or conversion of potential voting rights or other derivative instruments that include potential voting rights.

Instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with the "Financial Instruments" policy, except for those instruments that currently give access to the returns associated with an ownership interest in an associate or a joint venture.

An investment in an associate or a joint venture that is accounted for using the equity method is classified as a non-current asset.

4.3. Measurement

4.3.1. Impairment losses

The government entity applies the "Financial Instruments" policy to determine the following:

1. If it is necessary to recognize an additional impairment loss with respect to its net investment in an associate or a joint venture after applying the equity method and recognizing the deficit of the associate or joint venture;
2. If an additional impairment loss has been recognized for its interests in an associate or a joint venture that do not form part of the net investment and the amount of the impairment.

After considering the preceding paragraph, the government entity applies the "Impairment of Cash-Generating Assets" policy or the "Impairment of Non-Cash-Generating Assets" policy.

The "Impairment of Cash-Generating Assets" policy directs the government entity to determine the value in use of a cash-generating investment, where the government entity estimates the following:

1. Its share of the present value of the estimated future cash flows expected to be generated from the associate or joint venture, including the cash flows from their operations and the proceeds from the ultimate disposal of the investment; or
2. The present value of the estimated future cash flows expected to arise from dividends or similar distributions received from the investment and from its ultimate disposal.

Both methods will result in the same outcome using appropriate assumptions.

The government entity must assess the recoverable amount of each investment in an associate or joint venture unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those generated from the government entity's other assets.

Example: Application of the Equity Method

On January 1, Government Entity (A) acquired 30% of the ordinary shares carrying voting rights in Entity (B) for AED 30,000, over which it does not have control or joint control. On December 31, Entity (B) recognized a profit of AED 40,000 and declared cash dividends of AED 15,000, which were paid before the reporting date (December 31). The fair value of the investment at the reporting date was AED 42,000.

Government Entity A ← 30% → Entity B

Determining significant influence:

It is presumed that Government Entity (A) has significant influence over Entity (B) (i.e., Entity (B) is an associate of Government Entity (A)) in the absence of evidence to the contrary. Therefore, the equity method is applied to the investment in Entity (B).

Applying the equity method:

1. Recognize Government Entity (A)'s share in the profits of associate (B):

1. 40,000 × 30% = AED 12,000 is recognized in the surplus or deficit for the year of Government Entity (A).

2. Calculate Government Entity (A)'s share of the dividends distributed from associate (B):
15,000 × 30% = AED 4,500 dividends distributed by associate (B) to Government Entity (A).

3. Report the investment in the financial statements of Government Entity (A) at the reporting date:
30,000 + 12,000 – 4,500 = AED 37,500 is the value of the investment in associate (B).

4. Consider whether there are any indicators of impairment of the investment:
Since the fair value of the investment, equal to AED 42,000, exceeds its carrying amount, there are no impairment losses.

4.4. Changes in Equity Interests

If a government entity reduces its equity interest in an associate or a joint venture and the investment remains classified as such, it must reclassify its share of the gain or loss related to the reduction in equity interest, which was previously recognized in net assets, directly to accumulated surplus or deficit if that gain or loss would be required to be reclassified directly to accumulated surplus or deficit on the disposal of the related assets or liabilities.

4.5. Exemption from Applying the Equity Method

Controlling government entities that are exempt from preparing consolidated financial statements under the scope of the exception mentioned in the "Consolidated Financial Statements" policy are exempt from applying the equity method to investments in an associate or a joint venture.

A government entity may elect to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with the "Financial Instruments" policy when its investments are held indirectly through a venture capital organization, a mutual fund, a unit trust, and similar entities including investment-linked insurance funds, where such investment entities choose this measurement by definition. It is also entitled to make this election regardless of whether these entities have a significant influence on that portion of the investment. In that case, the government entity must apply the equity method to the remaining portion of the investment in an associate not held through the aforementioned entities.

4.6. Discontinuing the Use of the Equity Method

A government entity must cease using the equity method from the date on which the investee ceases to be an associate or a joint venture as follows:

1. If the investee becomes a controlled entity, the government entity must account for it in accordance with the "Consolidated Financial Statements" policy;
2. If the remaining interest in a former associate or a former joint venture is a financial asset, the government entity must measure it at

fair value and consider it at its initial recognition as a financial asset in accordance with the "Financial Instruments" policy. If the "Financial Instruments" policy does not permit the government entity to measure the remaining interest at fair value, the government entity must measure it at the carrying amount of the investment on the date it ceases to be an associate or a joint venture, and that carrying amount is considered the cost on its initial recognition as a financial asset in accordance with the "Financial Instruments" policy. The government entity must also recognize in surplus or deficit any difference between:

✓ The fair value (or carrying amount, where appropriate) of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and

✓ The carrying amount of the investment at the date the equity method was discontinued.

3. The government entity must account for all amounts previously recognized directly in its net assets in relation to the investment for which the equity method has been discontinued on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

The government entity shall continue to apply the equity method and shall not remeasure the remaining investment in an investee if it changes from an investment in an associate to an investment in a joint venture, or vice versa.

Policy 27 – Joint Arrangements

Table of Contents for Joint Arrangements Policy

4.2. Joint Ventures

1. Policy Objective

This policy aims to establish principles for financial reporting related to government entities' investments in jointly controlled arrangements (joint arrangements). This policy addresses the definition of joint control and requires government entities that are a party to a particular joint arrangement to determine the basis for classifying joint arrangements as either joint operations or joint ventures by assessing the rights and obligations arising from them, and to determine the accounting treatments for those rights and obligations according to the classification of those joint arrangements.

2. Scope

This policy applies to government entities that are a party to a joint arrangement and is applied to determine the type of joint arrangement and in accounting for the rights and obligations of the arrangement.

3. Joint Arrangements

A joint arrangement is either a joint operation or a joint venture. It has the following characteristics:

1. The parties are bound by a binding arrangement;
2. The binding arrangement gives two or more of those parties joint control of the arrangement.

3.1. Joint Control

The diagram below illustrates the assessment of joint control within the scope of the "Joint Arrangements" policy:

Does the binding arrangement give all the parties, or a group of them, collective control of the arrangement?

↓ Yes

Do decisions about the relevant activities require the unanimous consent of all the parties, or a group of them, who collectively control the arrangement?

↓ Yes

Joint control of the arrangement

↓

The arrangement is a joint arrangement within the scope of the "Joint Arrangements" policy

A government entity must assess whether the binding arrangement to which it is a party gives all parties, or a group of them, collective control over the activities of the arrangement that significantly affect its benefits. Accordingly, joint control is determined, which requires the parties that control the arrangement unanimously to agree on decisions regarding the relevant activities. Therefore, this assessment requires the government entity to exercise judgment, considering all facts and circumstances, as it must be reassessed if they change.

No single party controls a joint arrangement on its own but can prevent other parties or a group of parties from controlling the arrangement. This policy distinguishes between parties that have joint control over a joint arrangement (e.g., joint operators or joint venturers) and parties that participate in a joint arrangement but do not have joint control, as an arrangement can be considered a joint arrangement even if not all parties have joint control.

Example: Joint Control

1. If Government Entity (A) participates in an arrangement that requires unanimous consent of the parties only on decisions that give one of the parties to the arrangement protective rights:

   ✓ Government Entity (A) does not have joint control over the arrangement because the condition of unanimous consent does not include decisions regarding the relevant activities of the arrangement.

2. If Government Entity (A) participates in an arrangement that allows for decisions regarding dispute resolution (arbitration) to be made without unanimous consent among the parties.

   ✓ The existence of this clause does not prevent the arrangement from being jointly controlled, as it does not pertain to decisions regarding the relevant activities of the arrangement.

Example: Joint Control

Two government entities established an arrangement in which each holds 50% of the voting rights. The binding arrangement requires at least 51% of the voting rights to make decisions about the relevant activities.

Accordingly, the two government entities have implicitly agreed to have joint control over the arrangement because decisions about the relevant activities cannot be made without the consent of both parties.

Example: Joint Control

Three government entities established an arrangement in which each holds the following voting rights:

✓ Government Entity (A) – 50% of the voting rights
✓ Government Entity (B) – 30% of the voting rights
✓ Government Entity (C) – 20% of the voting rights

The binding arrangement requires 75% of the voting rights to make decisions about the relevant activities.

Accordingly, Government Entity (A) does not have control over the arrangement, although it can block any decision, because it needs the consent of Government Entity (B). The binding arrangement's requirement of 75% of the voting rights to make decisions about the relevant activities implies that Government Entities (A) and (B) have joint control over the arrangement, as no decisions can be made without their consent.

3.2. Types of Joint Arrangements

A government entity must determine the type of joint arrangement in which it participates, exercising judgment when assessing whether a joint arrangement is a joint operation or a joint venture. The classification depends on the rights and obligations of the parties arising from the arrangement, considering the structure and legal form of the arrangement, the terms agreed upon by the parties or prescribed by the relevant legislative or executive body, and other facts and circumstances (where applicable). The government entity must also reassess the type of joint arrangement if the facts and circumstances change.

The following flowchart summarizes how to determine the type of joint arrangement:

Is the arrangement structured through a separate vehicle?

↓ Yes

Does the legal form of the arrangement give the joint parties rights to the assets and obligations for the liabilities of the arrangement?

↓ No

Do the terms of the arrangement give the joint parties rights to the assets and obligations for the liabilities of the arrangement?

↓ No

For other facts and circumstances, are the activities of the arrangement primarily designed for the provision of output to the joint parties (i.e., the parties have rights to substantially all of the service potential or economic benefits of the assets of the separate vehicle); and does the arrangement depend on the joint parties on a continuous basis for settling the liabilities arising from the activities of the arrangement?

↓ No

Joint venture

Sometimes, government entities (as parties) may be bound by the terms of a specific agreement regarding the framework of the activity or activities to be undertaken (known as the "framework agreement"). The framework agreement may provide for the establishment of different joint arrangements to deal with specific activities that are part of the agreement. Although this framework agreement may include several joint arrangements, their type may differ if the rights and obligations of the parties differ when undertaking the various activities referred to in the agreement. Therefore, joint operations and joint ventures can coexist when the parties undertake different activities that are part of the same framework agreement.

The following table summarizes the basis for classifying a joint arrangement as either a joint operation or a joint venture:

Items	**Joint Operation**	**Joint Venture**
Terms of the binding arrangement	The arrangement gives the parties (including government entities) rights to the assets and obligations for the liabilities of the arrangement.	The arrangement gives the parties (including government entities) and not the separate vehicle rights to the net assets of the arrangement. The rights to the assets and obligations for the liabilities of the

Items	Joint Operation	Joint Venture
		arrangement are held by the separate vehicle.
Rights to assets	The parties (including government entities) share interests (e.g., ownership rights) in the assets of the arrangement in specified proportions.	The parties (including government entities) do not have interests in the assets transferred to or subsequently acquired by the joint arrangement; they are considered assets of the arrangement.
Obligations for liabilities	The parties (including government entities) share interests in the liabilities and expenses of the arrangement in specified proportions. The parties to the arrangement are also liable for any claims by third parties.	The parties (including government entities) do not have interests in the debts and obligations of the arrangement, but the joint parties may specify that they are liable up to a maximum amount of their paid-in investment or unpaid capital. The creditors of the arrangement have no right of recourse against the parties for any debts or obligations related to the arrangement.
Revenue, expenses, surplus or deficit	The arrangement determines the distribution of revenue and expenses based on the relative performance of each party to the arrangement.	The arrangement determines each party's share of the surplus or deficit of the arrangement's activities.

Example: Distribution of revenue and expenses among parties in a joint operation

✓ Distribution of the surplus or deficit resulting from the arrangement based on the government entity's ownership interest in the joint arrangement.
✓ Distribution of revenue and expenses based on the capacity of the plant (jointly operated) used by the government entity compared to other joint parties in the arrangement.

Example: Other facts and circumstances related to the joint arrangement

Below is an example of the impact of other facts and circumstances on determining whether a joint arrangement is a joint venture or a joint operation:

Government Entity (A) participated in an arrangement whose activities were specifically designed to provide its products to it and the other parties participating in the arrangement, where the arrangement prohibits the sale of products to any third party.

The foregoing indicates that the parties have substantial rights to the service potential or economic benefits of the arrangement's assets, which also means that the potential liabilities of the arrangement are implicitly covered by the cash inflows from the parties as a result of their purchase of the products. Accordingly, the parties are the sole source of cash flows contributing to the continued operations of the arrangement, which indicates that the parties have obligations for the liabilities of the arrangement, and therefore the arrangement can be classified as a joint operation.

4. Financial Statements of a Government Entity that is a Party to a Joint Arrangement

4.1. Joint Operations

A government entity that is a participant in a joint operation must recognize the following in relation to its interest in the joint operation from assets, liabilities, revenue, and expenses in accordance with accrual accounting policies, which include:

1. Assets, including the government entity's share of any assets held jointly;
2. Liabilities, including the government entity's share of any liabilities incurred jointly;
3. Revenue from the sale of the government entity's share of the output arising from the joint operation;
4. The government entity's share of the revenue from the sale of the output by the joint operation;
5. Expenses, including the government entity's share of any expenses incurred jointly.

A government entity that is a participant in a joint operation that purchases assets from the joint operation in which it participates shall not recognize its share of the profits and losses until these assets are sold to a third party. When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased for a joint operation or of the realization of an impairment loss for these assets, the government entity that is a participant in a joint operation shall recognize its share of the losses.

4.2. Joint Ventures

A government entity that is a participant in a joint venture shall recognize its interest in it as an investment and account for it using the equity method in accordance with the "Investment in Associates and Joint Ventures" policy, unless the government entity is exempt from applying the equity method in accordance with the "Investment in Associates and Joint Ventures" policy.

A government entity that participates in a joint operation and does not have joint control shall account for its interest in the arrangement in accordance with the "Financial Instruments" policy, unless it has significant influence over the joint venture, in which case its interest is accounted for in accordance with the "Investment in Associates and Joint Ventures" policy.

5. Separate Financial Statements

The following table shows how a government entity accounts for its interest in a joint operation or a joint venture:

Items	Joint Venture
Accounting for the government entity's interest in a joint operation or joint venture in its separate financial statements	In accordance with the "Separate Financial Statements" policy
Accounting for the government entity's interest in a joint arrangement where it does not have joint control	In accordance with the "Financial Instruments" policy, unless it has significant influence over the joint venture, in which case the "Separate Financial Statements" policy applies.

Policy 28 – Disclosure of Interests in Other Entities

Table of Contents for Disclosure of Interests in Other Entities Policy

1. Policy Objective

This policy aims to specify the requirements for disclosing information that will enable users of financial statements to evaluate the following:

1. The nature of, and risks associated with, government entities' interests in subsidiary entities, whether or not they are consolidated in the government entity's consolidated financial statements, as well as the nature of, and risks associated with, joint arrangements, associates, and structured entities that are not consolidated in the consolidated financial statements;
2. The effect of these interests on the financial position, financial performance, and cash flows of the controlling government entity.

2. Scope

This policy applies to a government entity that has an interest in the following:

1. Subsidiary entities;
2. Joint arrangements (joint operations or joint ventures);
3. Associates;
4. Unconsolidated structured entities.

3. Disclosure of Information about Interests in Other Entities

A government entity shall disclose the following items to achieve the objective of this policy, considering the quality and quantity of disclosures to present a clear picture to users of the financial statements:

1. Significant judgments and assumptions applied in determining the following:
   ✓ The nature of the government entity's interest in another entity or a specific arrangement;
   ✓ The type of joint arrangements in which the government entity has an interest;
   ✓ That the government entity is an investment government entity, where applicable.
2. Information relating to interests in:
   ✓ Subsidiary entities;
   ✓ Joint arrangements and associates;
   ✓ Unconsolidated structured entities;
   ✓ Unidentifiable ownership interests;
   ✓ Controlling interests acquired with the intention of disposal.

If the disclosure requirements in this policy, in addition to the requirements in this guide, are not sufficient to achieve the objective of this policy, the government entity shall disclose any additional information necessary to meet this objective.

4. Significant Judgments and Assumptions

A government entity shall disclose, within the financial statements or another statement using the same terminology as the financial statements, the methodology used in determining the following:

1. That the government entity has control over another entity as described in the "Consolidated Financial Statements" policy;
2. That the government entity has joint control over a particular joint arrangement or has significant influence over another entity;
3. The type of joint arrangement (joint venture or joint operation).

The government entity shall apply the requirements of the preceding paragraph by disclosing the factors determining the following, for example, but not limited to:

1. That the government entity controls a subsidiary (or a group of entities) when the government entity's interest is not clear through the holding of equity or debt instruments;
2. That the government entity does not control another entity (or a group of entities) despite owning more than half of the voting rights in that entity (or group of entities);
3. That the government entity controls a specific entity (or a group of entities) despite owning less than half of the voting rights in that entity (or group of entities);
4. That the government entity is a principal or an agent;
5. That the government entity does not have significant influence despite owning 20% or more of the voting rights in another entity;
6. That the government entity has significant influence despite owning less than 20% of the voting rights in another entity.

5. Government Entity / Investment Entity Status

When a government entity or an entity begins or ceases to be accounted for as an investment entity, the change in the investment government entity's status and the reasons for it must be disclosed. When a government entity/entity is considered an investment entity, the change and the reasons for it must be disclosed, in addition to the effect of this change on the financial statements presented for the period, provided that these disclosures include the following:

1. The total fair value of the subsidiary entities at the date of ceasing to consolidate their financial statements;
2. The total profit or loss calculated at the date of cessation;
3. The line item of the statement of financial performance in which the profit or loss mentioned in paragraph 2 was recognized, if the profit or loss is not presented separately in the statement of financial performance.

6. Interests in Subsidiary Entities

A government entity must disclose information that helps users of the consolidated financial statements to:

1. Understand the composition of the economic entity;
2. Understand the non-controlling interests in the economic entity's activities and cash flows;
3. Assess and explain the nature and extent of the effect of significant restrictions on the economic entity's ability to use and access its assets and settle its liabilities;
4. Assess and explain the nature and changes in risks associated with the economic entity's interests in consolidated structured entities;
5. Assess the consequences of changes in ownership interests that do not result in a loss of control;
6. Assess the consequences of a loss of control over a subsidiary during the financial reporting period.

When there is a difference between the date or period of the financial statements of a subsidiary entity and the date or period of the consolidated financial statements, the government entity shall disclose the following:

1. The date of the end of the reporting period of the financial statements of the subsidiary entity;
2. The reason for using different dates or periods.

6.1. Non-controlling Interests in the Economic Entity's Activities and Cash Flows

A government entity shall disclose the following for each subsidiary government entity/entity that has material non-controlling interests:

1. The name of the subsidiary entity;
2. The headquarters and legal form of the subsidiary entity and the place where it operates;
3. The proportion of non-controlling interests in the subsidiary government entity/entity's net assets;

4. The proportion of voting rights of the non-controlling interests in the subsidiary government entity/entity if it differs from the previous proportion in net assets;
5. The surplus or deficit allocated to the non-controlling interests in the subsidiary government entity/entity during the reporting period;
6. The accumulated non-controlling interests in the subsidiary entity at the end of the reporting period;
7. Dividends or any other distributions paid to the non-controlling interests in the subsidiary government entity/entity;
8. Summarized financial information about the subsidiary entity that helps users of the financial statements understand the extent of non-controlling interests in this subsidiary entity and in its activities and cash flows. This information may include information about current assets, non-current assets, current liabilities, non-current liabilities, revenue, surplus, and deficit, for example, but not limited to. This summarized information must be presented before making internal elimination and exclusion entries.

6.2. Nature and Extent of Significant Restrictions or Hindrances

The following must be disclosed regarding the nature of the restrictions imposed on the economic entity:

1. Significant restrictions imposed in binding arrangements (such as legal, regulatory, and contractual restrictions) that limit the ability to access or use assets or limit the ability to settle the liabilities of the economic entity, such as:
    - ✓ Restrictions that limit the ability of the controlling government entity or its subsidiaries to transfer cash or assets among entities within the economic entity.
    - ✓ Guarantees or other conditions that may restrict dividend distributions or any other distributions or loan or advance payments among entities within the economic entity.
2. The nature and extent of the ability of non-controlling interests to place material restrictions on the ability to use and access the economic entity's assets and the ability to settle liabilities (such as the need to

obtain minority approval for the use of a specific asset or the settlement of a specific liability).
3. The carrying amount of assets and liabilities in the consolidated financial statements to which these restrictions apply.

6.3. Nature of Risks Associated with the Government Entity's Interests in Consolidated Structured Government Entities/ Entities

If financial support or any other support is provided to a consolidated structured entity by the controlling government entity or one of its subsidiaries, despite the absence of binding arrangements for it, the following must be disclosed:

1. The type and amount of support provided and the circumstances in which the financial support was provided to the structured entity;
2. The reasons for providing the support.

If financial support or any other support is provided to an unconsolidated structured entity by the controlling entity or one of its subsidiaries despite the absence of binding arrangements for it, the related factors and causes for this decision must be disclosed if the provision of this support resulted in the supporting entity gaining control over the supported entity.

The government entity shall disclose any current intention to provide financial support or any other support to a consolidated structured entity, including such support as assisting this entity in obtaining financial support.

6.4. Consequences of Changes in the Controlling Entity's Interest in a Subsidiary that Do Not Result in a Loss of Control

The government entity shall present a schedule showing the effects on the owners of the subsidiary entity when changes in the net assets of this entity occur.

6.5. Consequences of a Loss of Control over a Former Subsidiary in the Financial Reporting Period

The government entity shall disclose the calculated profit or loss resulting from the loss of control in accordance with the "Consolidated Financial Statements" policy where applicable, in addition to the following:

1. The proportion of the profit or loss related to the measurement of any retained investment in the entity over which control was previously held and at fair value at the date of loss of control;
2. The line item (or items) of the statement of financial performance in which the profit or loss was recognized if the profit or loss was not recognized separately in the statement of financial performance.

7. Interests in Joint Arrangements and Associates

A government entity must disclose information related to joint arrangements and associates that enables users of the financial statements to assess the following:

1. The nature, extent, and financial effects of the government entity's interest in joint arrangements and associates, including the nature and effects of the government entity's relationship with investors who are related to the government entity through a relationship of joint control or significant influence over joint arrangements and associates; and
2. The nature and changes in risks associated with interests in joint ventures and associates.

7.1. Nature, Extent, and Financial Effects of the Government Entity's Interest in Joint Arrangements and Associates

A government entity shall disclose the following regarding joint arrangements and associates:

1. For each of the joint arrangements and associates that are material to the reporting government entity:
   - ✓ The name of the joint arrangement or associate;
   - ✓ The nature of the government entity's relationship with the joint arrangement or associate (such as explaining the nature of the activities of the joint arrangement or associate and clarifying whether

these activities are of strategic importance to the government entity's activities);

✓ The headquarters and legal form of the joint arrangement or associate and the place where it operates; and

✓ The proportion of the government entity's ownership interest or participation rights and the government entity's proportion of voting rights if different from the previous proportion.

2. For each of the joint ventures and associates that are material to the reporting government entity:

✓ The method used to measure the investment in the joint venture or associate, whether through the equity method or the fair value method;

✓ Summarized financial information about the joint venture or associate that helps users of the financial statements understand the interests of non-controlling interests in the subsidiary entity, its activities, and its cash flows. This summarized information may include information about current assets, non-current assets, current liabilities, non-current liabilities, revenue, surplus, deficit, depreciation, amortization, and interest expense, for example, but not limited to;

✓ The fair value of the government entity's investments in the joint venture or associate if there is a quoted market price for these investments and the government entity accounts for these investments using the equity method.

3. Financial information as specified regarding the government entity's investments in joint ventures and associates that are not individually material:

✓ The aggregate of joint ventures, noting that these ventures are not individually material; and

✓ The aggregate of associates, noting that these entities are not individually material. This aggregated information for associates must be presented separately from the aggregated information for joint ventures.

4. The aggregate carrying amount of the government entity's interests in joint arrangements and associates (which are considered immaterial if measured individually) that are accounted for using the equity method. The aggregate value of revenue must also be disclosed.

and the surplus or deficit, the amount of tax, and the pre-tax profit or loss resulting from the derecognition of assets or settlement of liabilities from discontinued operations, as applicable.

The government entity shall disclose the following:

1. The nature and extent of any significant restrictions (such as restrictions arising from binding or financing arrangements, or legal requirements between investors with joint control or significant influence over a joint venture or an associate) that limit the ability of joint ventures or associates to transfer funds to the government entity in cash or through dividend distributions or similar distributions, in addition to reducing the possibility of repaying loans and advances granted by the government entity.
2. When there is a difference between the date or period of the financial statements of the joint venture or associate and the date or period of the government entity's financial statements when applying the equity method of accounting, the government entity shall disclose the following:
    - The end date of the financial reporting period for the financial statements of the joint venture or associate;
    - The reason for using different dates or periods;
3. The government entity's unrecognized share of losses of the joint venture or associate for the reporting period and cumulatively, in case the government entity stops recognizing its share of losses in the joint venture or associate when applying the equity method of accounting.

7.2. Risks related to the government entity's interest in joint ventures and associates

The government entity shall disclose the following:

1. Unrecorded commitments related to its joint ventures, separately from other commitments. These commitments may cause future cash outflows and may be in the form of a commitment to finance, provide services, or purchase shares from other entities/establishments;

2. Contingent liabilities and contingent assets related to the government entity's investment in joint ventures or associates, separately from the controlling entity's contingent liabilities and contingent assets (unless the probability of loss is remote).

8. Interests in Unconsolidated Structured Entities

A structured entity has some or all of the following characteristics:

1. Specific or restricted activities;
2. A specific and explicit objective within its scope of operations;
3. It does not have sufficient funding to finance its activities without obtaining external support;
4. It is financed through phased contractual instruments linked to its controlling entity;

A partnership between a government entity and a private sector entity may, for example, represent a structured entity, provided that this partnership is not a joint venture operated under a binding arrangement.

The financing of an entity/establishment by a government entity, in itself, is not sufficient to classify this entity/establishment as a structured entity.

The government entity shall disclose information that enables users of its financial statements to:

1. Understand the nature and extent of the government entity's interests in unconsolidated structured entities;
2. Clarify the nature and changes in the risks associated with these interests.

8.1. Nature of Interests

If the necessary disclosure information is not presented by the government entity regarding sponsoring an unconsolidated structured entity (perhaps because it does not have an interest in this entity as of the financial reporting date), the government entity must disclose the following information:

1. How the government entity identified the structured entities it has sponsored;

2. Income from the structured entities during the reporting period and the types of this income; and
3. The carrying amount of all assets transferred to these structured entities during the period, as of the date of transfer.

The government entity must present the disclosure information in a tabular format (unless a better presentation format exists), and it must classify its sponsorship activities into appropriate categories.

8.2. Nature of Risks

The government entity shall disclose the following information in a tabular format unless a better presentation format exists:

1. The carrying amount of the assets and liabilities recognized in the financial statements related to interests in unconsolidated structured entities;
2. The line items in the government entity's statement of financial position in which these assets or liabilities are recognized;
3. The amount that represents the government entity's maximum exposure to loss from its interests in unconsolidated structured entities, including a disclosure of how this loss was determined. If the government entity cannot quantify its maximum exposure to loss, it must disclose that fact and the reasons why; and
4. A comparison of the carrying amounts of the assets and liabilities related to the government entity's interests in unconsolidated structured entities with the amount that represents the government entity's maximum exposure to loss from these interests.

If a government entity provides support (financial or other) to an unconsolidated structured entity, even though it has no contractual obligation to do so (such as purchasing assets from this structured entity), the government entity shall disclose:

1. The type and amount of support provided, including situations in which assistance was provided in obtaining financial support;
2. The reasons for providing this support.

9. Unquantifiable Ownership Interests

The government entity shall disclose information that enables users of its financial statements to understand the nature and extent of the government entity's unquantifiable ownership interests in other government entities/establishments.

10. Controlling Interests Acquired with the Intention of Disposal

It is the responsibility of government entities to ensure the health of the economy within their areas of responsibility. Therefore, they may sometimes intervene to prevent the consequences of a failure in an entity or establishment. This type of intervention may sometimes grant the government entity control over the at-risk entity/establishment, even though the government entity does not intend to maintain control over this subsidiary, but rather intends to sell or dispose of its interest. If it is necessary to restructure the entity/establishment to facilitate its disposal, this restructuring process may take a year or more, and thus the controlling government entity may retain some remaining assets or liabilities at the end of the restructuring process. Therefore, government entities, except for investment entities, shall disclose information related to interests in subsidiaries over which the government entity has control and a present intention or plan to dispose of these interests immediately upon demonstrating the existence of control as of the reporting date.

A government entity may acquire controlling interests in other entities/ establishments with the controlling entity's intention to dispose of part or all of its interests through the implementation of government policy objectives.

The following information for each entity/establishment must be disclosed in the notes to the financial statements:

1. The name of the subsidiary entity/establishment and a description of its principal activities;
2. The reason for the acquisition and the factors determining the existence of control;
3. The effect of consolidating the subsidiary entity/establishment within the consolidated financial statements of the controlling entity,

including the effect on assets, liabilities, revenue, expenses, and net assets; and
4. The current methodology being followed for the disposal process and the expected method and timing of doing so.

The disclosures required in the preceding paragraph must be presented at each financial reporting date until the controlling entity disposes of its interests in the subsidiary entity/establishment or until the controlling entity's intention to dispose ceases. In either case, the following must be disclosed:

1. The fact that the subsidiary entity/establishment was disposed of or that the controlling entity's intention to dispose has changed;
2. The effect of the disposal or the change in intention to dispose on the consolidated financial statements of the controlling entity.

A cross-reference should be added to any additional notes related to the above paragraphs when these notes are required in this policy or in any other accrual accounting policy standard.

Appendix 1 – Interests in Unconsolidated Government Entities (Investment Entity – “Consolidated Financial Statements” Policy)

The government entity/investment entity that applies the consolidation exception according to the terms of the "Consolidated Financial Statements" policy, through which investments are accounted for in this case at fair value through surplus or deficit, shall disclose this.

The investment government entity shall disclose the following for each of its unconsolidated subsidiaries:

1. The name of the subsidiary;
2. The registered office, legal form, and place of business of the subsidiary;
3. The proportion of net assets owned by the investment government entity and the proportion of voting rights if different.

If the investment government entity also controls another investment government entity, the controlling investment government entity shall also disclose the subsidiary investments of its subsidiary investment government entity. The disclosure may be made either in the financial statements of the controlling entity or in the financial statements of the subsidiary entities/establishments.

The investment government entity must disclose the following:

1. The nature and extent of any restrictions imposed through binding arrangements (such as restrictions imposed through contractual, legal, or borrowing arrangements) that limit the ability of unconsolidated subsidiaries to transfer funds to the investment government entity in the form of cash dividends or other distributions, in addition to limiting the ability to repay loans and advances granted by the investment entity.
2. Any current intention to provide financial or other support to an unconsolidated subsidiary, including the commitment and intention to assist this entity/establishment in obtaining financial support.

If support (financial or other) is provided by an investment government entity or one of its controlled entities/establishments to another unconsolidated subsidiary, despite the absence of a binding arrangement (such as purchasing assets from the subsidiary or assisting it in obtaining necessary financial support), the government entity shall disclose:

1. The type and amount of support provided and the circumstances in which financial support was provided to the structured entity/establishment;
2. The reasons for providing this support.

If financial or other support is provided to an unconsolidated structured entity by the investment government entity or one of its subsidiaries despite the absence of a binding arrangement, the related factors and reasons for this decision must be disclosed if the provision of this support resulted in the supporting entity/establishment gaining control over the supported entity/establishment.

Policy 29 – Segment Reporting

Table of Contents for Segment Reporting Policy

1. Policy Objective

This policy aims to establish principles for reporting financial information by service or geographical segments. This policy helps users of financial statements to better understand the performance of the government entity, identify the resources allocated to support the main activities of the government entity, enhance the transparency of financial reporting, and enable the government entity to fulfill its obligations.

2. Scope

Segment information is presented for consolidated financial statements only, if they exist, as this policy does not require the disclosure of segment information for the separate financial statements of a government entity within the economic entity.

Both the financial statements at the level of different government entities and the consolidated financial statements provide an overview of:

1. Controlled assets and liabilities;
2. The cost of services provided;
3. Revenues collected to finance the supply of its services.

This is because in most cases, the activities of a government entity are extensive, covering a wide range of different geographical areas or areas with varying socio-economic characteristics, to the extent that it becomes necessary to report the above information and detailed non-financial information about specific segments of the government entity to provide appropriate information for accountability and decision-making purposes.

3. Reporting by Segments

Government entities identify their activities and present their financial reports in a way that reflects the budget classifications used by the senior management of the government entity, in addition to any other users. This classification is done for purposes including:

1. Evaluating the past performance of the government entity and the extent to which its objectives have been achieved, and fulfilling its administrative responsibility;
2. Making decisions about the allocation of resources by the government entity as separate segments.

3.1. Financial Reporting Structures

Financial information at the whole-of-government level is often aggregated and presented in a way that reflects:

1. The main economic classifications of the activities undertaken by the government, such as health, education, defense, and social services (these may reflect the functional classifications of government finance statistics developed by the government) and the main commercial activities undertaken by government business enterprises, such as power stations, banks, and state-owned insurance facilities; or
2. The responsibilities of members of the executive government for a set of tasks. These responsibilities often, but not always, reflect the economic classifications in item (1) above, and differences may arise because responsibilities for a set of tasks may combine one or more economic classifications or correspond to these classifications.

If the activities are not defined as expected, this policy requires professional judgment in determining the activities of the government entity that should be grouped and classified as separate segments and reported on in the financial statements for accountability and decision-making purposes. Therefore, the preparing government entity must consider the following when preparing its financial statements and identifying its segment activities:

1. The objective of reporting financial information by segment;
2. The expectations of community members and their elected or appointed representatives regarding the main activities of the government entity;
3. The qualitative characteristics of financial reporting information, including the relevance, reliability, and comparability over time of the financial information reported for the different segments of the government entity;
4. Whether a particular segment structure reflects the basis on which the governing body requests financial information to enable it to evaluate the past performance of the government entity in achieving its objectives and to make decisions about the allocation of resources to achieve the government entity's future objectives.

3.2. Service Segments and Geographical Segments

The types of segments on which the government entity reports are classified as follows:

1. Service segments: These are segments related to the tasks for which the government entity exists. Government entities are usually managed along the lines of the services they provide because this reflects:
    - The way key outputs are identified;
    - Monitoring their achievements;
    - Determining their resource needs and budgeting for them.
2. Geographical segments: These are segments related to the specific places that the government entity exists to serve.

3.3. Identifying Service Segments

When determining whether the outputs of the government entity (such as goods and services) are related and therefore should be classified as segments for financial reporting purposes, the following are considered:

1. The primary operational objectives of the government entity, the goods, services, and activities related to achieving each of those objectives, and whether resources are distributed and allocated in the budget based on groups of goods and services;
2. The nature of the goods and services provided or the activities performed;
3. The nature of the production process and/or service delivery and the distribution process or its mechanism;
4. The characteristics of the customer or consumer of the goods or services;
5. The way the government entity is managed or the way financial information is reported to senior management and the governing board;
6. The nature of the regulatory environment, if appropriate (e.g., department or statutory authority) or the government sector (e.g., financial sector, public utilities, or general government).

The government entity can organize and report internally as it deems appropriate based on applicable laws and regulations on a regional basis, whether within or across national or local borders, or within or across the state or other jurisdictional boundaries. In such cases, the internal reporting system reflects a geographical segment structure.

3.4. Identifying Geographical Segments

Factors to be considered when determining whether financial information should be reported on a geographical basis include:

1. The similarity of economic, social, and political conditions in different regions of the state;
2. The relationships between the primary objectives of the government entity and the different objectives of the state's regions;
3. Whether the characteristics of service delivery and operating conditions differ across the state's regions;
4. The way the government entity is managed or the way financial information is reported to senior management and the governing board;
5. The special needs, skills, or risks associated with operations conducted in a particular area.

3.5. Multiple Segments

In some cases, a government entity may report its segment revenue, expenses, assets, and liabilities internally based on more than one segment structure, for example, based on both service and geographical segments. Reporting on both service segments and geographical segments in external financial statements often provides useful information if the achievement of the government entity's objectives is significantly influenced by the different products and services it provides, as well as by the geographical areas in which these goods and services are provided. Similarly, at the whole-of-government level, a government may adopt a basis for disclosure that:

1. Reflects disclosures for the general government, public finance sector, and commercial sector;

2. Appends, for example, a general government sector analysis with segmental disclosures by objective or function;

In these cases, reporting on segments can be done separately or in a matrix format. A primary and secondary segmental reporting structure can also be adopted, providing limited disclosures for the secondary segments.

3.6. Reporting on Inappropriate Structures

Segment activities often reflect budget classifications (e.g., the budget reflects specific chapters: 'employee expenses, operational expenses, capital expenses'). However, in some cases, a government entity may structure reports to its governing body and senior management internally on a basis that distinguishes revenues, expenses, assets, and liabilities related to non-budget-dependent activities (e.g., revenues from fines, fees, service delivery, etc.). In these cases, it is unlikely that such segment reporting will meet the objectives stated in this policy because it does not provide relevant information to users.

In some cases, detailed financial reports by service segment, geographical segment, or other activities may not be provided, but are prepared to reflect expenditures only by their nature (such as wages, rent, supplies, and capital acquisitions) on a basis consistent with the budget allocations applicable to the government entity. This may occur when the purpose of financial reporting to the governing body and senior management is to demonstrate compliance with spending mandates. When internal reporting (as deemed appropriate based on applicable laws and regulations) is structured solely to provide information about compliance, using the same basis for internal reporting for external purposes does not meet the requirements of this policy.

When the internal reporting structure of a government entity does not reflect the requirements of this policy, the government entity will need, for external reporting purposes, to identify segments that match the definition of a segment set out in this policy and disclose the information required by this policy.

4. Segment Revenue, Expense, Assets, and Liabilities

4.1. Segment Assets

Segment assets are treated according to the following rules:

1. If segment revenue includes interest or dividend income, then segment assets include the related receivables, loans, investments, or other revenue-producing assets;
2. Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from these investments is included in segment revenue;
3. Segment assets are determined after deducting related liabilities that have been reported as a direct offset in the government entity's statement of financial position.

Example: Examples of Segment Assets

- Current assets used in the operating activities of the segment
- Property, plant, and equipment
- Assets subject to finance leases
- Intangible assets
- Goodwill related to the segment.

If a specific item of depreciation or amortization is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for the general purposes of the government entity or for head office purposes.

4.2. Segment Liabilities

If the segment expense for a particular segment includes interest expense, its segment liabilities include interest-bearing liabilities.

Example: Examples of Segment Liabilities

- Trade and other payables
- Accrued liabilities
- Advances received from community members for the supply of goods and services,

- Product warranty provisions arising from any commercial activities of the government entity
- Other claims related to the provision of goods and services.

Segment liabilities do not include borrowings, liabilities related to assets under finance leases, and other liabilities incurred for financing rather than for operating purposes.

4.3. Segment Revenue

Segment revenue is treated according to the following rules:

1. It does not include interest or dividend income, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature;
2. It does not include gains on the sale of investments or gains on the extinguishment of debt, unless the segment's operations are primarily of a financial nature.
3. Segment revenue includes the government entity's share of the net surplus (deficit) of associates, joint ventures, or other investments accounted for using the equity method only if these items are included in the consolidated or total revenue of the government entity.

4.4. Segment Expense

Segment expense is treated according to the following rules:

1. It does not include interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;
2. It does not include losses on the sale of investments or losses from the extinguishment of debt, unless the segment's operations are primarily of a financial nature;
3. It does not include the government entity's share of the net deficit or losses of associates, joint ventures, or other investments accounted for using the equity method;
4. It does not include general administrative expenses, head office expenses, and other expenses that arise at the entity level and relate to the government entity as a whole. However, sometimes costs are

incurred at the entity level on behalf of a particular segment, and these costs are considered segment expenses if they relate to the operating activities of the segment and can be directly attributed or allocated to the segment on a reasonable basis.

4.5. Attributing Items to Segments

To determine the items that can be directly attributed or reasonably allocated to segments, the government entity's internal financial reporting system is considered a starting point, because amounts identified for segments for internal financial reporting purposes can be directly or reasonably attributed to segments for the purpose of measuring the revenue, expense, assets, and liabilities of those segments.

In general, public sector entities can determine (a) the costs of providing specific groups of goods and services or the costs of performing specific activities and (b) the assets required for these activities. This information is necessary for planning and control purposes. However, in many cases, the operations of government agencies and other public sector entities are financed by allocating specific items that reflect the nature of major expense categories. These allocated items may not be related to specific service lines, functional activities, or geographical regions. In some cases, it may not be possible to allocate revenue directly to a specific segment or to allocate it to a specific segment on a reasonable basis. Similarly, it may not be possible to directly allocate some assets, expenses, and liabilities, or allocate them on a reasonable basis, to individual segments because they support a wide range of service delivery activities across several segments or because they are directly related to general administration activities and cannot be identified as a separate segment. When reporting, revenue, expense, assets, and liabilities not attributed or unallocated to a specific segment are reported as unallocated amounts when reconciling segment disclosures with the total revenue of the government entity.

Government entities and their agencies may enter into arrangements with private sector entities to provide goods and services or to perform other activities. Sometimes these arrangements take the form of a joint venture or an investment in an associate accounted for under the equity method. In this case, segment revenue includes the segment's share of the net surplus (deficit) accounted for under the equity method, in the government entity's revenue, when it can be directly allocated or reliably allocated to the segment on a reasonable basis.

4.6. Segment Assets, Liabilities, Revenue, and Expense

Reference should be made to the appropriate standards for allocating costs to segments.

Example: Cost Allocation According to Standards

Examples of cost allocation in the accrual accounting policies for the Government of Ajman are as follows:

Accrual Accounting Policy for the Government of Ajman:

- Inventory - provides guidance on allocating inventory costs
- Revenue from Construction Contracts - which provides guidance on allocating contract costs.
- Statement of Cash Flows - whether a bank overdraft should be included as a component of cash or should be reported as borrowings.

5. Segment Accounting Policies

The "Consolidated Financial Statements" policy requires the elimination of transactions and balances between controlled entities upon consolidation of financial statements. However, segment revenue, segment expense, segment assets, and segment liabilities must be determined before the elimination of inter-unit transactions and balances within the government economic entity as part of the consolidation process, to the extent that these balances and transactions are between entities within a single segment.

The accounting policies adopted in the separate financial statements of the government entity must be the same as the accounting policies used in preparing the consolidated financial statements.

Segment accounting policies include policies specifically related to segment reporting, such as the method of pricing inter-segment transfers and the basis for allocating revenues and expenses to segments. To meet these requirements, it may be necessary to disclose policies specific to a particular segment.

A government entity shall disclose additional information about segments when it is prepared on a basis other than the accounting policies adopted for the consolidated financial statements or the government entity's financial statements only, provided that:

1. The information is relevant for performance evaluation and decision-making purposes;
2. The basis of measurement for this additional information is clearly described.

6. Shared Assets

Assets shared by two or more segments must be allocated to the segments provided that their revenues and expenses are also allocated to those segments. The method of allocating asset, liability, revenue, and expense items to segments depends on factors such as the nature of these items and the activities performed by the segment. It is not possible or appropriate to specify a single basis of allocation for all government entities to adopt, nor is it appropriate to impose the allocation of government entity items of assets, liabilities, revenues, and expenses that relate to two or more segments if the only basis for making those allocations is arbitrary or difficult to understand. At the same time, there is an overlap in the definitions of segment revenue, segment expense, segment assets, and segment liabilities, so the resulting allocations must be consistent. Accordingly, jointly used assets are allocated to segments provided that their related revenues and expenses are also allocated to those segments. For example, an asset is included in segment assets provided that depreciation or amortization is included when measuring segment expense.

7. Newly Identified Segments

New segments may be reported in the financial statements. For example, a government entity may change its internal reporting structure from a service segment structure to a geographical segment structure, and management may find it appropriate to adopt this new segment structure for external reporting purposes as well. A government entity may undertake significant new or additional activities, or increase the extent to which an activity that previously served as an internal support service provides services to external parties. In these cases, new segments may be reported for the first time in the financial statements. In such circumstances, this policy requires the restatement of comparative data for the prior period to reflect the current segment structure, where practicable.

8. Disclosures

Each government entity must disclose the revenue and expense for each segment. Segment revenue from contributions, segment revenue from other external sources, and segment revenue from operations with other segments must be reported separately.

The government entity shall disclose the total carrying amount of segment assets and liabilities for each segment.

The government entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period for each segment.

Disclose the nature and amount of any items of segment revenue and segment expense that are of a size, nature, or incidence that their disclosure helps to explain the performance of each segment for the period.

If a government entity calculates and discloses a segment result, it does not disclose any financing costs.

The government discloses segment cash flows if required, in accordance with the requirements of the "Statement of Cash Flows" policy, which requires the government entity to present a statement of cash flows that segregates cash flows from operating, investing, and financing activities.

Government entities that do not apply the preceding paragraph disclose the cash flows for each segment related to:

1. Segment expense for depreciation and amortization of segment assets,
2. Other significant non-cash expenses,
3. Significant non-cash revenues included in segment revenue,

This will enable users to identify the main sources and uses of cash in relation to the segment's activities for the period.

Disclose for each segment the government entity's aggregate share of the net surplus (deficit) of associates, joint ventures, or other investments accounted for using the equity method if substantially all of the operations of those associates are within that single segment. An assessment is made for each individual associate, joint venture, or other investment accounted for using the equity method to determine whether substantially all of its operations fall within a single segment.

The government entity shall provide a reconciliation between the information disclosed for segments and the aggregate information in the consolidated financial statements or the government entity's financial statements. Segment revenue must be reconciled to the government entity's total revenue from external sources (including disclosure of the amount of the government entity's revenue from external sources that was not included in any segment's revenue). Segment expense must be reconciled to the government entity's total expense in a comparable manner, and segment assets and liabilities must be reconciled to the government entity's assets and liabilities.

8.1. Additional Segment Information

The disclosure of minimum information about service and geographical segments is often useful for users for accountability and decision-making purposes. Therefore, if a government entity reports segment information on the basis of:

1. The main goods and services provided by the government entity, the programs it operates, the activities it undertakes, or other service segments, this policy encourages the government entity to report the following for each geographical segment:
    - Segment expense;
    - Total carrying amount of segment assets;
    - Total expenditure during the period to acquire segment assets expected to be used for more than one period; and
2. Geographical segments or another basis not included in point (a), this policy encourages the government entity to report the following segment information for each service segment:
    - Segment expense;
    - Total carrying amount of segment assets; and

- Total expenditure during the period to acquire segment assets expected to be used for more than one period.

8.2. Other Disclosure Matters

When measuring and reporting segment revenue from operations with other segments, inter-segment transfers must be measured taking into account the nature of each transfer. The nature of inter-segment transfers or any change in them must be disclosed in the financial statements. When the measurement of transfers changes, this is not considered a change in accounting policy and does not require a restatement of the financial statements.

Changes in accounting policies adopted for segment reporting that have a material effect on the segment information must be disclosed, and segment information for the prior period presented for comparison purposes must be restated, unless it is impracticable to do so. This disclosure should include a description of the nature of the change, the reasons for the change, the fact of whether the comparative information has been restated or that it is impracticable to do so, and the financial effect of the change if it can be reasonably determined. If a government entity changes the basis of its segment classification and does not restate prior-period segment information on the new basis because it is impracticable to do so, then the government entity, for comparison purposes, shall report segment data on both the old and new bases for segments in the year in which it changes its segment identification. The "Accounting Policies, Changes in Accounting Estimates and Errors" policy should be reviewed for further guidance.

Some changes in accounting policies relate specifically to segment reporting. Examples include changes in segment classifications and changes in the basis for allocating revenues and expenses to segments. These changes may have a significant impact on the reported segment information but do not change the aggregate financial information reported for the government entity. To enable users to understand the changes, if practicable, prior-period segment information included in the financial statements for comparison purposes is restated to reflect the new accounting policy.

Unless disclosed in the financial statements or elsewhere in the annual report, the government entity shall indicate:

1. The types of goods and services included in each reported service segment;
2. The composition of each reported geographical segment;
3. If the government entity does not adopt either a service or geographical basis for its segments, it must indicate the nature of the segment and the activities it contains.

8.3. Segment Operating Objectives

Unless disclosed otherwise in the financial statements or elsewhere in the annual report, this policy encourages the government entity to disclose the overall operating objectives established for each segment at the beginning of the reporting period, and to comment on the extent to which those objectives were achieved.

To enable users to assess the performance of the government entity in achieving its service delivery objectives, it is necessary to inform users of these objectives. To support this assessment, information regarding the composition of each segment, the service delivery objectives for these segments, and the extent to which those objectives have been achieved is disclosed. This information will also enable the government entity to better fulfill its accountability obligations. However, in many cases, this information may be included in the annual report as part of the report to the governing body, and therefore it is not necessary to disclose this information in the financial statements.