STATUTORY BOARD FINANCIAL REPORTING STANDARD GUIDANCE NOTE 10

Accounting for Capital Assets Funded using Statutory Boards' Reserves on Behalf of the Government

SB-FRS Guidance Note 10 *Accounting for Capital Assets Funded using Statutory Boards' Reserves on Behalf of the Government* applies to Statutory Boards for annual periods beginning on or after 1 April 2021. Earlier application is permitted.

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Statutory Board Financial Reporting Standard Guidance Note 10 *Accounting for Capital Assets Funded Using Statutory Boards' Reserves on Behalf of the Government* is set out in paragraphs 1-11. All the paragraphs have equal authority. SB-FRS Guidance Notes are issued to standardise the accounting and disclosure requirements of Statutory Boards in specific areas and are to be complied with by Statutory Boards. These Guidance Notes rank behind SB-FRS and INT SB-FRS in terms of importance.

Statutory Board Financial Reporting Standard (SB-FRS) Guidance Note 10

Accounting for Capital Assets Funded Using Statutory Boards' Reserves on Behalf of the Government

Objective

1. The objective of this Guidance Note is to provide guidance to Statutory Boards on the accounting for capital assets funded using Statutory Boards' reserves on behalf of the Government in Statutory Boards' financial statements.

Background

2. In most instances, items which meet the definition of an asset within the SB-FRS Conceptual Framework and are paid for using Statutory Boards' own reserves should be capitalised in the Statutory Board's Statement of Financial Position.

3. However, in some instances, Statutory Boards implement and fund the construction of capital assets on behalf of their Parent Ministries using their own reserves to fulfil certain national objectives. The construction of these assets by the Statutory Board may be at the request of the Parent Ministry, or the Statutory Board and its Parent Ministry jointly agreed for the Statutory Board-funded project to be implemented. In all these cases, it is clear that the projects proceeded with at the least the agreement of the Parent Ministry. Examples of assets funded in such a manner may include, but are not limited to:

   (i) Parks;
   (ii) Conservation buildings;
   (iii) Bridges; and
   (iv) Roads.

4. For the limited instances of Statutory Boards funding assets essentially belonging to the Government, there is need to review whether these capital assets should be capitalised in Statutory Boards' financial statements.

Accounting for Capital Assets Funded Using Statutory Boards' Reserves on Behalf of the Government

Determining Asset Ownership

5. For good accountability, asset ownership should be established upfront between the Statutory Board and its Parent Ministry before the commencement of the project. This is because ownership of assets is a key factor in determining whether the Statutory Board should recognise these assets in its Statement of Financial Position.

6. Statutory Boards should consider the definition of an asset within the *SB-FRS Conceptual Framework (Table 4.1)* when determining whether to capitalise such assets constructed using their own reserves:

Element of Financial Statements	Definition or Description
Asset	A present resource controlled by the Statutory Board as a result of past events. A resource is a right with service potential or the potential to generate economic benefits.

7. In applying this definition, a Statutory Board should consider the following:

   (i) Right over assets – For a Statutory Board's rights to be recognised as its assets, the Statutory Board should consider whether it has control over these assets (see paragraph 7(ii)), as well as whether these assets have the potential to generate for the Statutory Board benefits beyond the benefits available to all other parties (see paragraph 7(iii) and (iv)). Not all of a Statutory Board's rights are assets of the Statutory Board. For example, a Statutory Board may have the rights to construct a bridge on behalf of its Parent Ministry, but this does not imply that the Statutory Board may recognise the bridge as its asset without considering other factors such as those indicated in paragraphs 7(ii) to 8(iii) below.

   (ii) Control[1] of assets – Whether the Statutory Board can direct the use of the assets and obtain any benefits which may flow from it. A Statutory Board has the ability to direct the use of the assets only:

   - If it has the right to direct how and for what purpose the assets are used throughout the period of use e.g. it has the decision-making rights to change how and for what purpose the assets are used for;
   - If the relevant decisions about how and for what purpose the assets are used are predetermined by the Statutory Board, and the Statutory Board has the right to operate the assets (or to direct others to operate the assets in the manner that it determines) throughout the period of use, without its Parent Ministry having the right to change those operating instructions; or

[1] According to the SB-FRS Conceptual Framework (SB-FRS CF) paragraph 4.23, a Statutory Board controls a resource if it has the present ability to direct the use of the resource and obtain the benefits that may flow from it.

- If the relevant decisions about how and for what purpose the assets are used are predetermined by the Statutory Board, and the Statutory Board designs the assets (or specific aspects of the assets) in a way that predetermines how and for what purpose the assets will be used throughout the period of use.

(iii) Potential to generate economic benefits – If the asset has the potential to generate revenue to be retained by the Statutory Board, then clearly the Statutory Board should recognise the asset. The asset could generate the revenue by itself or in combination with other resources.

(iv) Service potential[2] – As Statutory Boards are public sector entities, not all their assets generate revenue for them. For example, recreational, heritage, community and other assets held by Statutory Boards are typically used to provide services to third parties. The Statutory Board should consider if the asset has the potential to provide services that contribute to achievement of the Statutory Board's objectives.

8. Other factors which Statutory Boards should consider in determining asset ownership include the following (non-exhaustive and in no particular order of importance):

(i) Whether the Statutory Board or Parent Ministry bears the risks and rewards of the completed asset – For example, a Statutory Board that has to bear the subsequent maintenance costs of a capital asset is more likely to be deemed as the owner of the asset;

(ii) Whether the Statutory Board or Parent Ministry bears the construction risks of the asset; and

(iii) Terms and conditions of contracts or agreements entered into between the Statutory Board and external parties, as well as its Parent Ministry – In many instances, the substance of these contracts or agreements may point to whether the Statutory Board is acting as the owner of the asset or only as an agent on behalf of the Parent Ministry.

Accounting Treatment

9. If the Statutory Board establishes that it "owns" these assets in accordance with the principles mentioned in paragraph 7 and 8, then the Statutory Board should recognise the assets in its' Statement of Financial Position i.e. as "projects-in-progress" or other equivalent term before completion, and subsequently capitalised as "property, plant and equipment" upon project completion.

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[2] Service potential is the capacity to provide services that contribute to achieving the Statutory Board's objectives. Service potential enables a Statutory Board to achieve its objectives without necessarily generating net cash inflows.

10. If the Statutory Board only funds the development of the assets but does not "own" the assets, then the Statutory Board should recognise only the disbursement of funds e.g. as distribution to owners i.e. Government of Singapore, directly from Accumulated Surplus. This should be presented in the Statement of Changes in Equity as a reduction from Accumulated Surplus.

Effective Date

11. This Guidance Note is operative for financial statements covering periods beginning on or after 1 April 2021. Earlier application is permitted.

Annex A

Example 1

Scenario:

During the financial year ended 31 March 20X0, Statutory Board A incurred $20m to fund the capital expenditure for Project X at the request of its Parent Ministry. Project X is not intended to be revenue-generating; it is an asset with service potential (e.g. link bridge). The operation of the asset is in line with the mission and objectives of both Statutory Board A and its Parent Ministry. According to the submission to seek its Parent Ministry's approval for the project, Statutory Board A's role is to implement and co-fund the construction of these state assets. It has no control over the design and features of the assets, and is also not responsible for the maintenance of the completed state assets; its Parent Ministry is the key decision maker over these aspects.

In this case, Statutory Board A is only contributing funds for the construction of state assets under Project X, as the relevant decisions about how and for what purpose the asset is used are made by the Parent Ministry. It does not have control over the assets, so they should not be recognised as its assets by Statutory Board A. Statutory Board A should account for the funding provided as distribution to owners (as a reduction from accumulated surplus) in its Statement of Changes in Equity.

Example 2

Scenario:

During the financial year ended 31 March 20X0, Statutory Board A incurred $20m to fund the capital expenditure for Project X. The operation of the asset is in line with the mission and objectives of both Statutory Board A and its Parent Ministry. According to the submission to seek its Parent Ministry's approval for the project, Statutory Board A and its Parent Ministry will jointly agree on the design and features of the assets. Once operational, the asset will generate external revenue only for its Parent Ministry. The Parent Ministry will appoint Statutory Board A as an agent to operate and maintain the assets and pay fees to Statutory Board A to do so.

In this case, Statutory Board A does not own the assets, since it is clearly acting as an agent of its Parent Ministry, although it has joint control with its Parent Ministry on the design and features of the assets and is responsible to maintain the assets. The Parent Ministry bears the maintenance costs of the assets, and also retains all the revenue generated by the assets, thereby indicating that the risks and rewards, as well as economic benefits of the assets will flow to the Parent Ministry. Statutory Board A should account for the funding provided as distribution to owners (as a reduction from accumulated surplus) in its Statement of Changes in Equity.

Example 3

Scenario:

During the financial year ended 31 March 20X0, Statutory Board A incurred $20m to fund the capital expenditure for Project X. The operation of the asset is in line with the mission and objectives of both Statutory Board A and its Parent Ministry. According to the submission to seek its Parent Ministry's approval for the project, the assets to be constructed under Project X will reside on both State Land and land alienated to Statutory Board A. It is also stated that Statutory Board A's role is to implement and fund the construction of these assets. Statutory Board A will also be responsible for, and bear the costs of maintaining these assets.

Statutory Board A is responsible to implement the construction of these assets, and has the authority to decide on the design and features of the assets and how they would be operated. It has also been agreed upfront that Statutory Board A will own the assets residing on both State Land and land alienated to Statutory Board A for 20 years. After 20 years, Statutory Board A is required to transfer ownership of the assets residing on both State Land and land alienated to Statutory Board to its Parent Ministry.

In this case, Statutory Board A owns the assets. It has control over the assets and the operation of the assets will assist Statutory Board A in the achievement of its mission and objectives. Statutory Board A should account for the assets as Projects-in-Progress in its Statement of Financial Position during the construction phase, and subsequently capitalise them as "Property, Plant and Equipment" upon project completion.

Illustrative Example

<u>Presentation in Statement of Changes in Equity: Disbursement of Statutory Board's Funds for Capital Assets Funded on Behalf of the Government</u>

	Capital account	Share capital	Accumulated Surplus	Total
	$	**$**	**$**	**$**
At 1 April 2020	5,000,000	1,000,000	200,000,000	206,000,000
Net surplus for the year, representing total comprehensive income for the year	-	-	6,000,000	6,000,000
Transactions with owners, recognised directly in equity				
Equity injection (Note xx)	-	2,000,000	-	2,000,000
Statutory Board funding for government projects (Note xx)	-	-	(10,000,000)	(10,000,000)
Total transactions with owners	**-**	**2,000,000**	**(10,000,000)**	**(8,000,000)**
At 31 March 2021	**5,000,000**	**3,000,000**	**196,000,000**	**204,000,000**