United Nations

Corporate Guidance

for

International Public Sector Accounting Standards

Delivery Principle

June 2014

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Content table

1 INTRODUCTION

The **delivery principle** is one of the key concepts of accrual based accounting. Whilst no specific standard exists regarding the delivery principle and the recognition of expenses, the concept represents a core part of IPSAS 1:

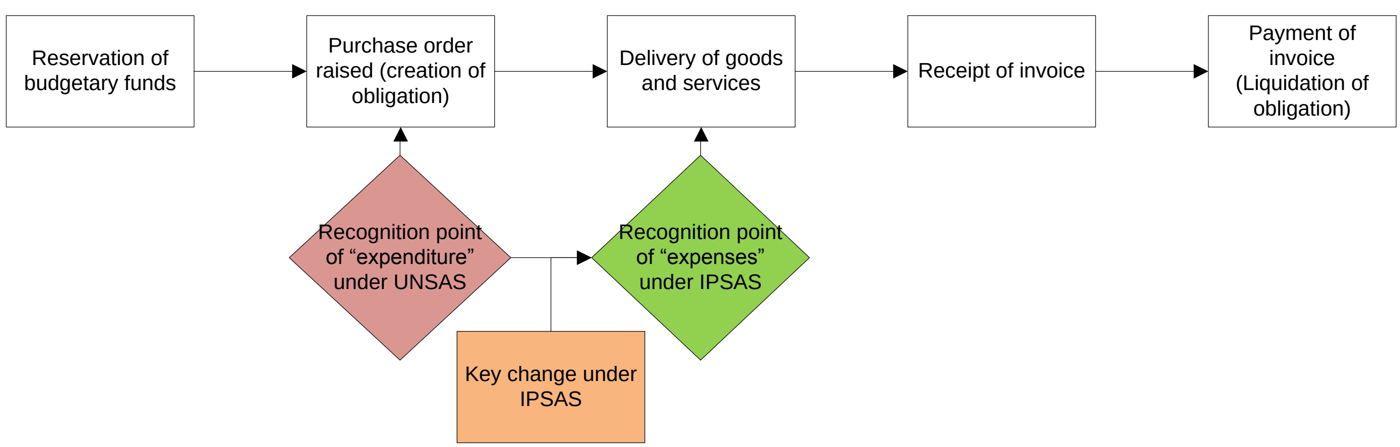
> *Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.*

The recognition of expenses or assets is therefore based on the timing of the actual delivery of goods or services, independent from the date of ordering or payment (under UNSAS, the United Nations Secretariat (United Nations) has in the past recognised expenditure upon "disbursement or unliquidated obligations made against the appropriation/allocation of the period").

From an accounting perspective, a distinction should also be made between the word "expense" (an IPSAS term) and the word "expenditure" (a UNSAS term). "Expenditure" under UNSAS may relate to cash outflows for capital or operating purposes; the timing of related "expenses" under IPSAS may differ. For example, "capital expenditure" (UNSAS) may be incurred at the purchase date of the item, but depreciation "expenses" (IPSAS) for capital items will follow later over the life of the asset.

The key change under IPSAS is that "expenses" will generally be recognised at a later point in time than "expenditure" is under UNSAS, as highlighted in the flowchart below:

Flowchart – Goods and services procurement process



The goal of this document is to clarify the timing of recognition regarding expenses, assets and liabilities in order for the United Nations to adopt and apply a comprehensive and consistent accounting treatment for the recognition of transactions based upon delivery.

Further details on the recognition of an asset (e.g. property, plant & equipment, inventory, etc) versus an expense may be found in the “recognition” section of specific Corporate Guidance papers (e.g. property, plant & equipment, inventories, etc).

2 DEFINITIONS

IPSAS

Accrual basis means a basis of accounting 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

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.

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, other than increases relating to contributions from owners.

An **asset** is a resource controlled by the United Nations as a result of past events and from which future economic benefits or service potential are expected to flow to the United Nations.

A **liability** is a present obligation of the United Nations arising from past events, the settlement of which is expected to result in an outflow from the United Nations of resources embodying economic benefits or service potential.

An **obligating event** is an event that creates a legal or constructive obligation that results in the United Nations having no realistic alternative to settling that obligation.

Employee benefits are all forms of consideration given by the United Nations in exchange for service rendered by employees. We refer to Corporate Guidance #8 for a detailed discussion.

Incoterms (International Commercial Terms) provide internationally accepted definitions and rules of interpretation for most common commercial terms, and are used worldwide in international and domestic contracts for the sale of goods. These terms define the rights and obligations of the buyer and seller with respect to the delivery of goods.

UNSAS

Expenditure for a financial period is the sum of the disbursements and valid unliquidated obligations made against the appropriation/allocation of the period.

Obligations are amounts of orders placed, contracts awarded, services received and other transactions which involve a charge against the resources of the current financial period under UNSAS and which would require payment during the same or a future financial period.

Unliquidated obligations ("ULO"s) are obligations which remain unpaid.

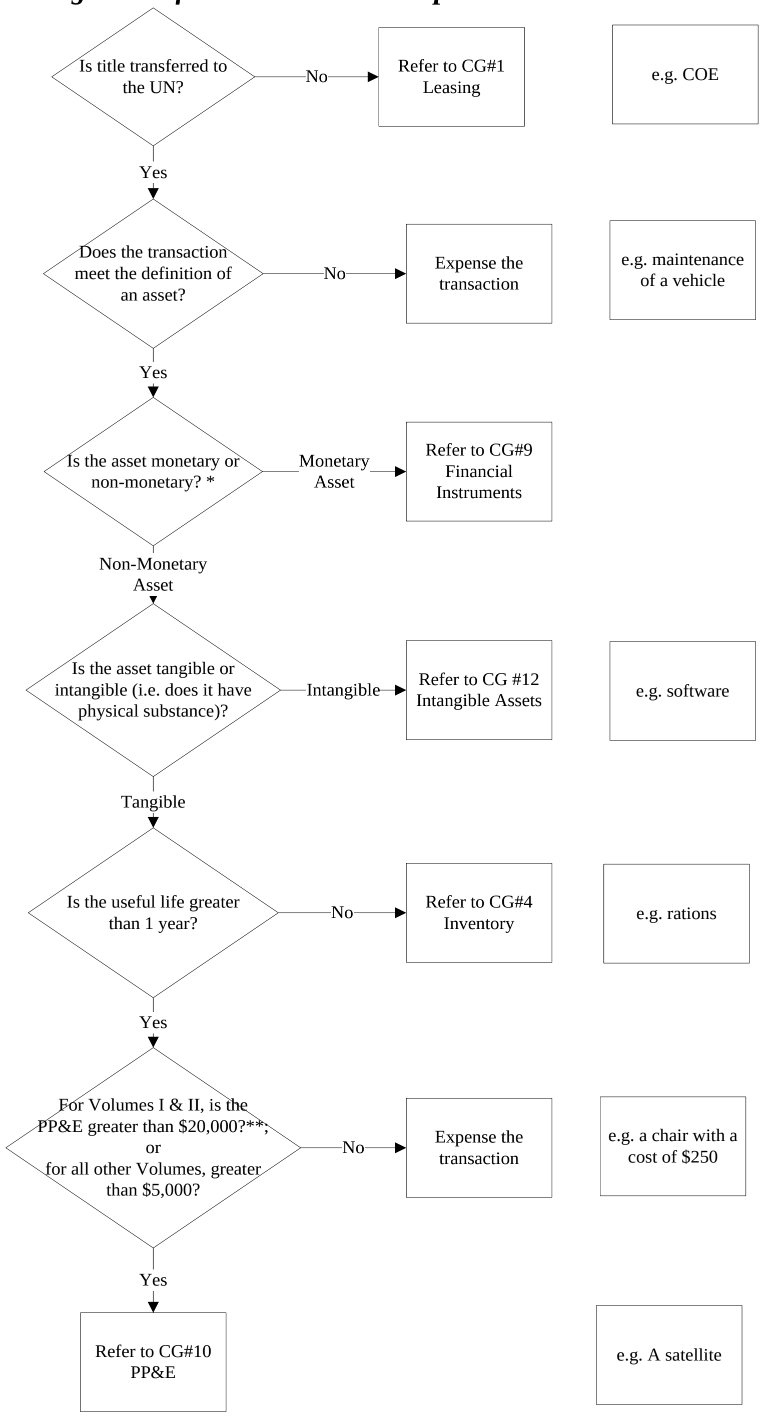
3 EXPENSES VERSUS ASSETS

In certain situations, a key issue will be whether goods/services received should be **capitalized** (an asset is recognized) or instead whether an **expense** should be recognized. In such situations, the definition and recognition criteria for assets are relevant because expense recognition will result if those criteria are not met and an asset is not recognized. This is specifically the case concerning IPSAS 17 / IPSAS 12 and recognition of property, plant and equipment / inventories. If the criteria for capitalization of an asset (including United Nations thresholds) are not met, an expense is recognized for the value of the goods delivered in the financial year.

For example, the United Nations may purchase an armoured car to transport staff in a war zone, and then clean and maintain it. The car may meet the definition of an asset under IPSAS 17 and may therefore be capitalised, whilst the cleaning and maintenance of the car may not represent an asset and therefore will instead represent an expense. In both cases, recognition of the asset and the expense will occur upon delivery of the asset or service in question.

This guidance will focus on the timing of the recognition regardless of whether it concerns an expense or an asset. The following flowchart details the decision process required to determine the recognition of an asset versus an expense.

Flowchart – Decision tree for recognition of an asset versus an expense



* Monetary financial assets are financial assets to be received in fixed or determinable amounts of money.

** Includes but is not limited to the following commodity groups for which the lower threshold of USD 5,000 is applicable: vehicles, prefabricated buildings, satellite communication systems, generators and network equipment.

***Note** – for guidance relating to funding agreements, please refer to Corporate Guidance #5 – Funding Agreements.*

4 TIMING OF RECOGNITION

4.1 The delivery principle

Under the **delivery principle,** the timing of recognition of expenses and assets will occur when the goods and/or services are received by (i.e. "delivered" to) the United Nations, and not on receipt of an invoice or payment in cash. Determination of the receiving date is therefore a crucial decision point.

For example, telephone calls may be made over a period of time before an invoice is received from a telecoms company. Under the **delivery principle**, an expense and corresponding liability (an accrual) should be recognised at the end of the period (i.e. month or quarter) for the period in which the related telephones calls were made, and not when an invoice is received, or when the unliquidated obligation is created (as is currently the case for UNSAS "expenditure"). In some cases, an expense or asset may need to be recognised under IPSAS, even when no budget exists in the period in question. This may be the case when delays in the delivery of goods mean that goods are "received" in a later financial year, when the assigned budget has expired. In this case, an asset is recognised under IPSAS, even if there is no budget set aside for it.

Conversely, some services, such as rent, may be paid in advance by the United Nations, before delivery of the service takes place. In such cases, an expense is only recognised at the point of delivery of the service. Until that point, a pre-payment asset is recognised on the statement of financial performance.

As noted in the introduction, no specific IPSAS Standard exists for the delivery principle or for the recognition of expenses, however guidance may be obtained by mirroring the accounting treatment followed by suppliers when accounting for revenue in their own accounts in applying the principles of IPSAS 9 *Revenue from exchange transactions*. This Standard differentiates between recognition criteria for goods and for services, however the underlying concepts are the same – recognition at the point of delivery of the goods or service.

IPSAS 19 also includes references to the recognition point of liabilities for goods or services that have been received or supplied, differentiating between payables, accruals and provisions. We refer to Corporate Guidance #7 Provisions and (contingent) liabilities.

***Note** – the examples in this corporate guidance paper refer to the accounting treatment required by IPSAS and this guidance does not replace the steps required for budgetary reporting.*

4.2 Recognition of goods based on Incoterms

The United Nations may take delivery of goods which involve a complex logistical journey from the source of production to the final point of delivery to the United Nations.

Under IPSAS, revenue from the sale of goods should be recognized when the seller has transferred the **significant risks and rewards** of ownership of the goods to the purchaser. This coincides with the transfer of the legal title or the passing of possession to the purchaser.

The point at which a seller recognises revenue, and in turn when the United Nations should recognise an expense or asset, is therefore the point at which the risks and rewards of ownership of the goods are transferred to the United Nations.

The precise criteria which determine the correct date of receipt of goods through the transfer of ownership rights to the United Nations are based on **Incoterms** (separate recognition criteria for services received are noted below in section 4.3). These terms of trade are set by the International Chamber of Commerce (ICC) and represent internationally agreed terminology for the receipt of goods. The most recent version of Incoterms is dated 2010, building on the previous version issued in 2000. The point of "delivery" of goods is therefore dependent on the Incoterms set in the purchase contract signed by the United Nations and the supplier. The recognition point of goods delivery will therefore differ based on the individual Incoterms set each time the United Nations procures goods from a supplier.

Various terms of delivery are identified in these Incoterms, ranging from where the United Nations must collect goods directly from a seller's factory or premises (Ex-Works), to where the seller must deliver goods directly to the field offices, missions or headquarters.

There are seven Incoterms 2010 valid for any mode of transport, and an additional four where transport is entirely by water. Four Incoterms from 2000 were excluded from Incoterms 2010; however the United Nations may still receive goods on this basis where contracts were signed prior to 2010.

The table below summarises these Incoterms and highlights the related point of "delivery" at which the goods should be recognised by the United Nations:

Incoterm	**Details of costs**	**Recognition of "delivery" to United Nations**	**Example of documentation providing delivery date**
Incoterms for any form of transportation			
Ex-works (EXW)	The United Nations collects from seller's premises specified in the contract, paying all transportation costs.	On taking control from the seller at the seller's factory or warehouse.	Advice from seller on availability of goods, Freight-Forwarder Certificate of Receipt (FCR) or equivalent

Incoterm	**Details of costs**	**Recognition of "delivery" to United Nations**	**Example of documentation providing delivery date**
Free Carrier (FCA)	Seller handles goods over to the first carrier specified by the United Nations; United Nations pays for transport after delivery to the carrier.	On loading of goods on specified carrier.	Freight-Forwarder Certificate of Receipt (FCR) or equivalent
Carriage Paid To (CPT)	Seller pays for carriage to first carrier at place of import specified by the United Nations.	On loading of goods on specified carrier.	Delivery Receipt & Bill of Lading (B/L) or Airway Bill
Carriage and Insurance Paid to (CIP)	Seller pays for carriage and insurance to named destination.	On loading of goods on specified carrier.	
Delivery At Terminal (DAT)	Seller pays for carriage to the terminal except for costs related to import clearance.	On unloading of goods at Port of Entry terminal.	Delivery Receipt & B/L or Airway Bill
Delivered At Place (DAP)	Seller pays for carriage to the named place except for costs related to import clearance.	On unloading of goods at the specified location.	
Delivery Duty Paid (DDP)	Seller pays for carriage to the named place including costs related to import clearance. The United Nations is responsible for unloading.	On unloading of goods at the specified location.	
Incoterms for transportation by water			
Free Alongside Ship (FAS)	Seller pays for costs up to placing the goods alongside a ship at a port specified by the United Nations and must clear goods for export.	At the transfer of control at seller's port.	Freight-Forwarder Certificate of Receipt (FCR) or equivalent
Free On Board (FOB)	Selling pays for costs up to loading goods on board of the vessel specified by the United Nations and must clear goods for export.	On loading of goods on specified vessel	
Cost and Freight (CFR)	Seller pays for costs and freight to bring the goods to port of destination, but not insurance.	On loading of goods on specified vessel.	Delivery Receipt & B/L
Cost, Insurance and Freight (CIF)	Seller pays for costs and freight to bring the goods to port of destination, including insurance.	On loading of goods on specified vessel.	

Incoterm	**Details of costs**	**Recognition of “delivery” to United Nations**	**Example of documentation providing delivery date**
Incoterms 2000 no longer used in Incoterms 2010			
Delivered at Frontier (DAF)	Seller pays for transportation to place of delivery at frontier named by United Nations. United Nations pays for custom clearance and transport from frontier to the final destination (road and rail only).	On passing of good across frontier.	Delivery Receipt & B/L or Airway Bill
Delivered Ex-Ship (DES)	Seller pays freight and insurance to port specified by United Nations. Unloading costs and import duties are paid by the United Nations.	When good are made available to United Nations upon arrival of ship at port of destination (i.e. prior to unloading).	
Delivered Ex-Quay (DEQ)	As DES above.	When goods have been unloaded at the port of destination.	
Delivered Duty Unpaid (DDU)	Seller delivers goods to United Nations at named place of destination. Seller pays costs except duty.	Upon delivery at named location .	Delivery Receipt & B/L or Airway Bill

The timing of recognition of goods for the United Nations is thus based on the contractual terms for delivery of goods.

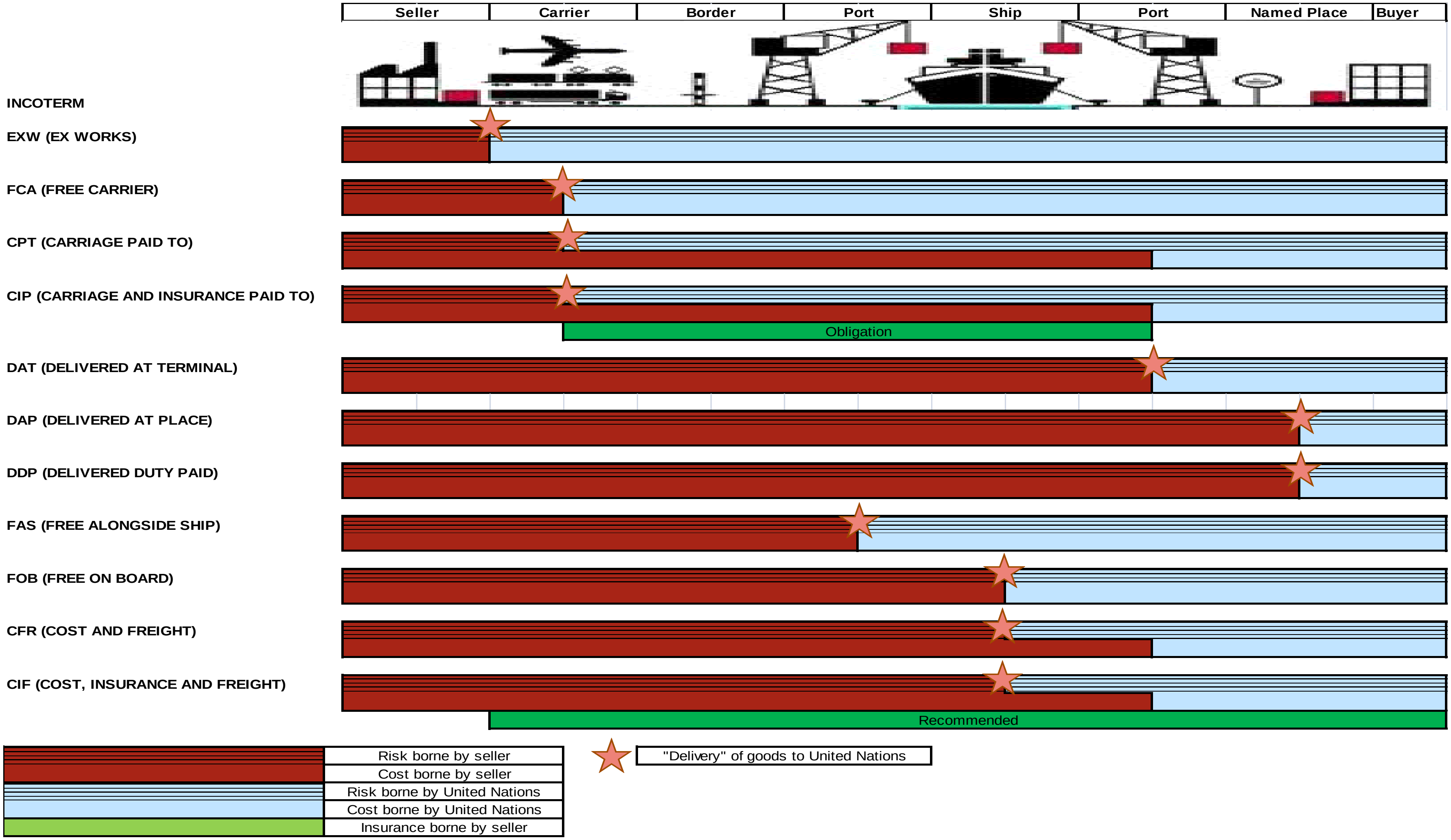
It is therefore vital that procurement teams provide details of “delivery” dates to the relevant asset/property management teams for “goods in transit” (i.e. those goods where the Incoterms, such as EXW or FCA, specify that the United Nations contractually receives goods before they are physically received at United Nations premises by R&I teams). Incoterms should be recorded in the procurement system when the goods are ordered and the correct delivery date recorded by asset/property management teams in the asset management system once the goods have been delivered under Incoterms.

Detailed procedures should be established through Standard Operating Procedures (SOPs) in order to outline individual responsibilities in this process based on local circumstances and delivery procedures.

In addition, there may be specific clauses in contracts signed by the United Nations which override standard Incoterms and may specify different points of transfer of risks and rewards of ownership. Where this is the case, the United Nations must recognise the delivery of the goods at the point specified in the contract. Again, it is vital that procurement teams indicate such terms and recognise delivery of goods at the specific points mentioned in the contracts.

The following diagram highlights the various stages of transfer of risks and rewards for each Incoterm

Flowchart – Incoterms 2010



Example – Delivery of cars for field mission – "Delivery At Terminal" Incoterms

A field office based in Asia orders a large number of cars from a supplier based in the USA for use in missions in remote rural areas requiring specialised vehicles. The United Nations has an agreement in place whereby delivery of the cars is governed by Delivery At Terminal (DAT) Incoterms. The defined 'Port of Entry Terminal' is the capital city's main port, from where the field office must arrange for transportation of the cars to the field office.

Due to the lead times in question, the cars must be ordered 6 months in advance of delivery with 50% of the purchase price paid in advance and 50% on delivery. The cars meet IPSAS 17 criteria for recognition as property, plant and equipment.

- Date of order: 10 January 20X1
- Date of final production of cars in factory: 20 May 20X1
- Date loaded onto container ship: 3 June 20X1
- Date of arrival at main port: 1 July 20X1
- Date of arrival at field office: 2 July 20X1
- Dates of payment: 10 January 20X1 (50%) and 2 July 20X1 (50%)
- Total price for cars: $ 2,000,000

<u>Accounting entries for year ended 30 June 20X1</u>

As per the Incoterms, the risks and rewards of ownership of the cars are transferred to the United Nations on delivery of the cars at the main port by the supplier.

Therefore, even though the cars have been ordered, paid for in part and are in transit towards the main port by 30 June 20X1, the goods have not yet been "delivered" in line with DAT Incoterms by the end of the financial year.

No expenses or assets should be recognised for the cars on raising and issuing the purchase order – recognition should be based on **delivery** and not on initial procurement of the assets. In this example, the long lead times between ordering and delivery may result in assets being recognised in the incorrect financial year if recognition of the assets is incorrectly based upon the date of ordering and not the date of delivery.

The risks and rewards of ownership have not been fully transferred to the United Nations, and therefore **no property, plant & equipment should be recognised** at 30 June 20X1. The cash paid in advance should be recognised as a prepayment:

Dr. Prepayments (assets)	$1,000,000	
Cr. Cash		$1,000,000

Accounting entries for year ended 30 June 20X2

Following delivery of the cars on 1 July 20X1, the field office should recognise an asset, first as "goods in transit" between the main port and field office, and then as "property, plant & equipment" following receipt by the R&I team. Associated transport costs should be recognised in line with IPSAS 17. We refer to Corporate Guidance #10 Property, Plant & Equipment regarding discussion on associated costs related to property, plant & equipment.

On delivery of the cars at main port on 1 July 20X1 (recognition of asset based on delivery principle):

Dr. Property, Plant and Equipment (goods in transit)	$ 2,000,000	
Cr. Prepayments		$ 1,000,000
Cr. Accounts payable		$ 1,000,000

On delivery of the cars to field office on 2 July 20X1:

Dr. Property, Plant and Equipment (vehicles)	$ 2,000,000	
Cr. Property, Plant and Equipment (goods in transit)		$ 2,000,000

On payment of the remaining 50% of the balance on 2 July 20X1:

Dr. Accounts payable	$ 1,000,000	
Cr. Cash		$ 1,000,000

Example – Receipt of chairs from seller under Ex-works (EXW) Incoterms

The United Nations Headquarters in New York, USA orders a consignment of 100 chairs for staff in its offices from a supplier in China. The chairs are produced in a factory in China and under the "Ex-Works" (EXW) Incoterms of the contract with the supplier, the goods are considered "delivered" to the United Nations when available at the factory floor.

The United Nations must therefore pay for the cost of transporting of the chairs from the factory floor in China to the offices in New York. The chairs are paid for by the United Nations on arrival in New York (usually one month after production). The chairs are below the United Nations capitalisation threshold of $ 20,000 per item and therefore should be recognised as an expense rather than an asset.

- Date of order: 10 August 20X1
- Date of production of chairs in factory: 20 November 20X1
- Date of invoice: 21 November 20X1
- Date loaded onto transporter: 03 December 20X1
- Date of loading onto plane in Shanghai: 31 December 20X1
- Date of arrival at JFK Airport, New York: 01 January 20X2
- Date of arrival at United Nations Office: 02 January 20X2
- Date of payment: 02 January 20X2
- Total price for chairs: $ 20,000 ($200 per chair)

Accounting entries for year ended 31 December 20X1

Under the EXW Incoterms, the risks and rewards of ownership are transferred to the United Nations at the point at which the chairs are available for collection at the seller's factory. It is at this point that the chairs are considered "delivered" to the United Nations by the supplier. The United Nations should therefore recognise an expense for the cost of the chairs on 20 November 20X1:

Dr. Office supplies (expense)	$ 20,000	
Cr. Accounts payable (liabilities)		$ 20,000

Recognition of the expense under IPSAS does not occur at the time of issuing the purchase order for the chairs (whereas under UNSAS expenditure is recognised at that time), as the goods have not yet been delivered at this point.

Accounting entries for year ended 31 December 20X2

No further expenses should be recognised in 20X2, as the chairs were fully "delivered" to the United Nations under the EXW Incoterms in the previous financial year (20X1). The following accounting entries should be made in the statement of financial position on payment of the invoice on 2 January 20X2;

Dr. Accounts payable (suppliers)	$ 20,000	
Cr. Cash		$ 20,000

Transportation costs should be recognised in line with the delivery principle for services (see next section).

4.2.1 Note on payment for goods in non USD denominated currency

Though the US dollar (USD, $) is the "functional currency" of the United Nations, it operates in many countries where the transactions are processed in a non USD denominated currency. It is therefore important that the United Nations considers the exchange rates present at the different stages of the purchasing cycle in order to apply the correct accounting treatment on recognition and measurement of the assets and expenses, and measurement of any outstanding liabilities at the financial year-end.

Whilst IPSAS 4 – "The Effects of Changes in Foreign Exchange Rates" covers many scenarios, the approach for the purposes of the purchasing of goods by the United Nations is relatively straight-forward. The key concept is that exchange gains or losses occur when transactions are payable in a non USD denominated currency and the exchange rate changes between the recognition of the transaction and the time of payment. In the case of payables or accruals, any exchange rate differences are recognized in the statement of financial performance (i.e. in surplus or deficit).

For the purchase of goods, the goods should be recognized in the United Nations' functional currency (i.e. USD) at the exchange rate between the functional currency and the non USD denominated currency at the date of the transaction (i.e. at the date of "delivery" under Incoterms as per section 4.2 above). This rate is known as the "spot rate" at the date of "delivery".

On payment of the related invoice, any gain or loss resulting from movement in exchange rates between initial recognition of the transaction and settlement of the invoice are recognized in the statement of financial performance (i.e. in surplus or deficit).

However, if a liability exists at the financial year-end which is payable in a non USD denominated currency, it must also be translated at the "closing rate" (the spot exchange rate at the end of the reporting period). Payables and accruals are considered to be "monetary items" and as such any exchange differences are also recognized in surplus or deficit in the statement of financial performance.

Example – Delivery and payment of goods in non USD denominated currency

The United Nations orders goods from the United Kingdom, where the local currency is the British Pound (GBP). The goods are valued at GBP 200,000. The goods are "delivered" to the United Nations under Delivery Duty Paid (DDP) Incoterms on 27 November 20X1, and payment of the invoice for GBP 200,000 is made on 4 February 20X2, after the year-end of 31 December 20X1. The goods meet IPSAS 17 recognition criteria for Property, Plant and Equipment. The functional currency of the United Nations is the US Dollar (USD, $).

- Spot rate at 27 November 20X1 = 1 GBP = 1.8 USD
- Closing rate at 31 December 20X1 = 1 GBP = 2.0 USD
- Spot rate at 4 February 20X2 = 1 GBP = 1.9 USD

Accounting entries in year ended 31 December 20X1

No accounting entries are recorded under IPSAS prior to the delivery of the goods.

On delivery of the asset on 27 November 20X1:

The United Nations should recognize an asset on "delivery" of the goods under Incoterms, translating the cost of the asset at the spot rate at 27 November 20X1 (i.e. 1 GBP = 1.8 USD). A payable should also be recognised for the same value.

Dr.	Property, Plant and Equipment	$ 360,000		(= GBP 200,000 * 1.8)
	Cr. Payables		$ 360,000	

The asset is then subsequently measured in line with IPSAS 17; we refer to Corporate Guidance #10 - Property, Plant and Equipment for further details. The asset will not need to be translated again; its historic cost is fixed at the spot rate on the date of "delivery".

At the end of the financial year on 31 December 20X1:

At the end of the financial year, the payable has not yet been settled by the United Nations, and there has been a change in exchange rate to 1 GBP = 2.0 USD. The actual amount that the United Nations will pay to settle the liability at the year-end is thus $ 400,000 (GBP 200,000 * 2.0).

The United Nations should therefore recognise a loss on exchange of:

Gain / (Loss) = [Liability translated at "spot rate" of delivery] – [Liability translated at "closing rate"]
= $360,000 - $ 400,000
= ($ 40,000) **(loss)**

The loss should be recognised at the year-end in surplus or deficit and increase the value of the payable in the functional currency:

Dr.	Exchange rate losses (statement of financial performance)	$ 40,000	
	Cr. Payables		$ 40,000

<u>Accounting entries in year ended 31 December 20X2</u>

On payment of the invoice on 4 February 20X2:

When the invoice is paid, there has again been a movement in exchange rates between the 31 December 20X1 and the payment date of 4 February 20X2. This time, the movement is the United Nations' favour and the amount to required pay the liability in USD has reduced. The liability now stands at $ 380,000 (GBP 200,000 * 1.9).

Gain / (Loss)	=	[Liability translated at "closing rate"] - [Liability translated at "spot rate" of payment]	
	=	$400,000 - $ 380,000	
	=	$ 20,000	**(gain)**

The gain should be recognised in surplus or deficit on settlement of the liability:

		Dr.	Cr.
Dr.	Payables	$ 20,000	
	Cr. Exchange rate gains (statement of financial performance)		$ 20,000
Dr.	Payables	$ 380,000	
	Cr. Cash		$ 380,000

***Note** – this is an illustrative example only and does not represent the accounting treatment to be followed for all exchange rate differences. Given the scale of the United Nations' non USD denominated currency transactions, the majority of exchange calculations are likely to be automated in the accounting system.*

4.3 Recognition of services under the delivery principle

4.3.1 Application of delivery principle

As delivery of a service does not usually conclude with the provision of a tangible physical product, it may therefore be more difficult to determine when a service has been delivered than for delivery of physical goods. Examples of services may include security, cleaning, consulting, recruitment or building management services.

In such cases, the United Nations should again recognise expenses by mirroring the seller's treatment of the related revenue by reference to the **stage of completion** of the transaction at the reporting date. This means that the expenses recognised should reflect the real stage of completion (i.e. the status of the delivery) of the service, even where amounts have not yet been invoiced.

Expenses for services should be recognised in line with agreed milestones, for example on a quarterly basis for COE, or on a monthly basis for flight hours.

Where precise details of the exact costs are unknown at the year-end (for example if work is ongoing and no invoices or completion certificates are available by the end of the year), an estimate of the extent of the service delivered up to the year-end should be made. Further details regarding the estimation of year-end costs are provided in Section 5.1 *Splitting unliquidated obligations into delivered and undelivered portions* below.

Example – Security services invoiced in arrears for OAH

The United Nations has an annual contract for security services for its buildings arranged with an external security provider. In line with the contract, quarterly inspections are performed. The purchase order was raised in the year preceding the actual provision of the security services using the funding for the period in which the services are to be delivered. Invoices are received quarterly in arrears.

Date of ordering services:	3 December 20X1
Period of delivery of services:	1 January 20X2 to 31 December 20X2
Receipt of quarterly invoice:	1 month after end of quarter (i.e. 1 May, 1 August, 1 November 20X2 and 1 February 20X3)
Value of quarterly invoice:	$ 100,000 (fixed cost)

Accounting entries for 31 December 20X1:

No expenses should be recognised in 20X1. Under the delivery principle, the expense for the security services should not be recognised on the date that the services were ordered (3 December 20X1), but instead in the period that the services were **provided and delivered** to the United Nations (1 January 20X2 to 31 December 20X2).

Accounting entries for 31 December 20X2:

First, an entry should be made to recognise the security costs for the invoices received by 31 December 20X2 (3 quarters x $100,000):

Dr. Security services expense	$ 300,000	
Cr. Accounts payable		$ 300,000

This entry will be made during the financial year 20X2 upon quarterly inspection of services.

All three of the invoices will be paid by 31 December 20X2; therefore the following entry should also be made:

Dr. Accounts payable	$ 300,000	
Cr. Cash		$ 300,000

The timing of this entry will depend on the timing of payment of the invoices in 20X2.

A third entry should also be made to recognise the security services provided in the financial year 20X2 but not yet invoiced by 31 December 20X2; at the end of the financial year, three months of security services (i.e. the last quarter of 20X2) had been provided to the United Nations but not yet invoiced by the security firm.

In this case, a reliable estimate of the expense incurred for the security services provided for the three months in question should be made, using the most accurate financial information available at the time of the preparation of the accounts. Recognition of these expenses should not wait until receipt or payment of the related invoice. In this case, the amount per quarter is fixed at $100,000 therefore a very accurate estimate can be made:

Dr. Security services expense	$ 100,000	
Cr. Accrued charges (liability)		$ 100,000

This entry will be recognised as a year-end adjustment.

Further details regarding the estimation of year-end costs are provided in Section 5.1: *'Splitting unliquidated obligations into delivered and undelivered portions'* below.

The total expense recognised in relation to security services is therefore **$400,000** for the year ended 31 December 20X2.

Example – Preparation of Corporate Guidance papers

The United Nations requests support from a professional services firm to draft 19 Corporate Guidance papers, each one focusing on a specific IPSAS accounting area. The work takes place over 3 months in 2013 and involves two drafts of each paper. The professional services firm bills the paper once draft 2 is issued to the United Nations. The contractual terms specify that payment is only made on acceptance of “Draft 2” of each paper by the United Nations and $10,000 is payable per paper.

In line with the above guidance, the expense for the preparation of these corporate guidance papers should be recognised in line with the stage of completion of each paper. However, given the short time period in which the work is completed, it is more practical to recognise the expense relating to each paper at the point at which “Draft 2” of the paper is approved by the United Nations.

Accounting entries to recognise expense (at the point of approval of each paper):

Dr. Professional fees	$ 10,000	
Cr. Accruals / payables		$ 10,000

4.3.2 CONTRACTS CONTAINING SIGNIFICANT ACTS

Where there is one specific act noted within a service contract that is more significant than the rest of the acts under the contract, expense recognition is postponed until the significant act has been carried out.

There are a number of factors that the United Nations needs to consider to determine whether an arrangement contains a specific act that is much more significant than any other acts. For example, tasks undertaken by a supplier that do not build on one another toward completion of the service may indicate that there is a single significant act since each act is not integral to providing the service. This may be the case when the service is the bringing together of parties in an arrangement or an agreement (e.g. a travel or estate agent). When the supplier determines the level of work performed and controls whether the service is ultimately delivered, this may indicate there is not a single significant act and that the service is performed over the contract period.

The timing of cash payments should not, by itself, determine whether a single act is much more significant than any other in an arrangement. However, the terms of an arrangement that involve payment only upon completion of a single act should be assessed to determine whether the timing of the payment suggests that one act is more significant than the others. Judgement will be required in many circumstances to determine whether a specific act is much more significant than any others. This will depend on the precise facts and circumstances of the contract in question.

Example - Transaction with a significant act

The United Nations requests the advice of a professional services firm in preparing a bid for project funding from an International Organisation. Professional fees are charged on a time basis, but will not be payable by the United Nations unless the United Nations is successful in winning the bid.

The significant act is the bid being won by the United Nations. Until that point, no expense should be recognised by the United Nations, even though the professional services firm may have provided services to the United Nations. This is because until the bid is won, expenses are not payable, and if this does not occur, no economic benefits will flow from the United Nations.

4.3.3 CONTINGENT COST REIMBURSEMENT FOR TROOPS AND POLICE

United Nations Peacekeeping incurs expenses for the **Contingent Cost Reimbursement for Troops and Police (TCCR and PCCR)**. This includes costs incurred for Military Units and Formed Police Units, where the United Nations reimburses countries providing these troops and in addition pays for rations, deployment, movement of Contingently Owned Equipment (COE) and allowances given to troops, amongst other costs.

Costs for troops and police payable to countries may be considered as a service provided by countries to the United Nations in the context of the delivery principle. Expenses should therefore be recognized as the services of the troops are provided by these countries, and not when the related obligations are created or the payments made to the countries in question.

Documentation is provided to the United Nations on a monthly basis which sets out the troop and police numbers for each Contingent in a “Troop Strength Analysis” summary, certified by the Police Commissioner or Force Commander of the Mission. These analyses are received approximately one to two weeks following the end of the month in question and are then certified at United Nations Headquarters on a quarterly basis prior to payment to the countries.

The costs of the troops is determined by the average monthly deployment (calculated from the number of days the troops have worked) multiplied by a fixed rate per troop month, with an enabling premium of 10% paid for logistics and other specialized troops.

<u>Expenses should be recognized based on the average monthly deployment of troops and police</u> during the financial year. These details are provided within the “Troop Strength Analyses” each month, and therefore the average monthly deployment referenced in these sheets should be used to calculate the expenditure incurred.

Costs other than these daily rates are also recognized as they are incurred; rations are recognized at the point of delivery (see section above on Incoterms), and allowances recognized as expenses in line with the “Travel expenses” section below.

Example – Recognition of expenses for troops in United Nations Interim Security Force for Abyei (UNISFA)

Uruguay provides Peacekeeping troops to the UNISFA for a period of 6 months from 1 April 20X1 to 30 September 20X1. At the end of each month, the United Nations receives a Troop Strength Analysis certified by the Troop Commander which details the number of days worked by troops (logistics/infantry/FHQ staff officers) in each month and the average number of deployed troops per month is used to calculate the reimbursement level:

April 20X1	= 2 / 267 / 0	= 269 person months	(logistics/ infantry/FHQ staff officers)
May 20X1	= 2 / 267 / 0	= 269 person months	
June 20X1	= 1 / 135 / 0	= 136 person months	
July 20X1	= 1 / 135 / 0	= 136 person months	
August 20X1	= 1 / 135 / 0	= 136 person months	
September 20X1	= 1 / 135 / 0	= 136 person months	

The standard United Nations daily troop rate is $1,028 per month, with an enabling premium of 10% paid for logistics and other specialised troops.

The United Nations will make payment to the Uruguayan Government quarterly in arrears, therefore the payment for April, May and June 20X1 will be made in October 20X1, and the payment for July, August and September 20X1 will be made in January 20X2.

Accounting entries for year ended 30 June 20X1:

To 30 June 20X1, Uruguay had provided troops for a total of 674 person months, of which 5 were logistics troops and 669 were infantry. The financial statements for 30 June 20X1 should therefore recognize expenses for these services:

- Expenses relating to logistics troops	= 5 * 1.1 (enabling) * $ 1,028
	= $ 5,654
- Expenses relating to infantry troops	= 669 * $ 1,028
	= $ 678,732
- Total expense	**= $ 693,386**

An accrual for the total amount of these expenses should be recognized in the financial statements:

Dr. Troop contingent cost reimbursement	$ 693,386	
Cr. Accrued charges (liability)		$ 693,386

These expenses can be entered on a monthly basis on inspection of the "troop strength analyses". An accrual will be required for the June 20X1 expenses, which can be based on the exact information contained in the "troop strength analysis" summary for June 20X1.

<u>Accounting entries for year ended 30 June 20X2:</u>

From 1 July 20X1 to 30 September 20X1, Uruguay had provided troops for a total of 408 person months, of which 3 were logistics troops and 405 were infantry. The financial statements for 30 June 20X2 should thus recognize expenses for these days:

- Expenses relating to <u>logistics</u> troops = 3 * 1.1 (enabling) * $ 1,028

  = $ 3,392.40

- Expenses relating to <u>infantry</u> troops = 405 * $ 1,028

  = $ 416,340.00

- **Total expense** **= $ 419,732.40**

Two payments were also made in the year ended 30 June 20X2:

Payment for April to June 20X1	= $ 693,386.00	(paid October 20X1)
Payment for July 20X1 to September 20X1	= $ 419,732.40	(paid January 20X2)
Total payment	**= $ 1,113,118.40**	

Dr. Troop contingent cost reimbursement (expense)	$ 419,732.40	
Dr. Accrued charges (liability)	$ 693,386.00	
Cr. Cash		$ 1,113,118.40

These expenses can be entered on a monthly basis on certification of the "troop strength analyses".

4.3.4 Contingent Owned Equipment (COE)

As detailed in Corporate Guidance #1 Leasing, the United Nations uses equipment provided by Troop/Police Contributing Countries (TCC/PCC) in overseas missions, agreeing terms and conditions of use through Memoranda of Understanding (MoU) signed by the United Nations and the TCC/PCC in question. Such arrangements are considered to be operating leases under IPSAS and therefore expenditure is recognized on a straight-line basis from the lease commencement date.

The key consideration relating to the delivery principle in this area is therefore the "delivery" point of the COE to the United Nations, as this will govern the lease commencement date and hence act as the trigger point for the recognition of expenditure. The location of delivery is specified in each MoU, however in conjunction with the physical delivery of the equipment, the lease will only start when the equipment meets performance and "serviceability" standards specified in Annex D of the MoU. When these performance standards are met, the United Nations will start to incur expenditure in relation to the equipment.

At present, there is a delay of approximately three months between the physical delivery of equipment and the physical inspection of the serviceability of the equipment by the United Nations. As a result, it is likely that at the financial year-end, the United Nations will have received a number of items of equipment which have not been physically inspected by the date of the preparation of the financial statements. The United Nations may therefore be unable to determine which equipment is serviceable and hence estimate the expenditure which should be recognized for the serviceable equipment received.

In such cases, as a transitional measure, the United Nations should use a serviceability factor to calculate the proportion of equipment delivered by year-end which has not yet been physically inspected. This factor should be based on past serviceability of equipment based on real inspections by equipment class and be applied to the operating lease expense for the financial year for equipment not yet inspected.

In the longer-term, physical inspections should be brought forward to the year-end, or ideally to the actual point of physical delivery, so that the actual level of serviceable **equipment is know** at the date of the preparation of the accounts.

A detailed example regarding the "delivery" of COE is included in the case study within section 7.1 below.

4.3.5 Letters of Assist (LOA)

A Letter of Assist is signed by the **United Nations** and a **troop contributing country** to agree the transportation of troops, goods and COE, often as part of the <u>deployment or rotation of troops</u>. Emplacement, rotation and repatriation movements of personnel are usually performed through air transportation. In the case of emplacement or repatriation of the COE, movements may take several weeks, involving multiple sea journeys, long overland journeys, and in a small number of cases, flights.

The United Nations may pay costs directly to commercial carriers or instead use the services provided a troop contributing country, such as the use of military aircraft or ships for transportation. Occasionally a combination of both is used.

Where commercial services are provided to the United Nations, invoices are received from the suppliers in question and paid following inspection of the service provision. For services provided by troop contributing countries, claims are received from the Government in question, sometimes months or years in arrears. Again, these are paid only after inspection of the service. A Government may submit a claim up to five years after the provision of the service, thus long time delays may be possible before the actual costs are known.

Letters of Assist may be classified as a <u>service received by the United Nations</u>, and therefore the <u>expenses for these services should be recognized in the financial period of the actual delivery of the services</u>. Should the services under the LOA be received across two or more financial years, the expenses relating to <u>the services should be fully recognized as soon as the movement of troops or equipment begins</u> even when the movement may not be completed for some weeks or where invoices or claims have not yet been received or paid.

It is thus important that inspection of services is performed on a timely basis at the financial year-end in order that the service delivery can be determined and the appropriate expenses accrued. In most cases, delays in the receipt of the invoices or claims for service provision under LOAs will mean that details of actual costs incurred may not be available at the point of preparation of the financial statements. Further details regarding the estimation of year-end costs are provided in Section 5.1 *Splitting unliquidated obligations into delivered and undelivered portions* below.

Example – Letter of Assist for repatriation of Pakistani troops and COE from United Nations Operation in Côte d'Ivoire (UNOCI)

Following the end of duties of Pakistani troops in Côte d'Ivoire, the United Nations wishes to repatriate troops and COA to Karachi, Pakistan. The United Nations engages a commercial transportation company to move troops and equipment overland from the UNOCI base in Côte d'Ivoire to Abidjan on the coast of the Gulf of Guinea, after which the Pakistan Navy and Army will transport the troops and equipment by ship to Karachi.

The commercial transportation company is paid 50 % in advance and 50% in arrears (on 8 July 20X1) for the services provided. Inspection is performed on 8 June 20X1. The total cost for the commercial transportation is $ 100,000. Costs incurred by the Pakistan Navy will be claimed in arrears by the Pakistani Government in line with a LOA specifying costs of $ 1,000,000 for transporting the troops and equipment, $ 20,000 for loading and $20,000 for unloading.

The troops and equipment leave the UNOCI base on 1 June 20X1 and arrive in Abidjan on 6 June 20X1. Following arrival of the Pakistan Navy in Abidjan, loading of the troops and equipment starts on 8 June 20X1 and the ships leave Abidjan on 12 June 20X1. The troops and equipment are expected to arrive in Karachi on 1 August 20X1, with unloading completed on 5 August 20X1.

A cost claim for the transportation costs is received from the Pakistan Government on 2 July 20X2 for $ 1,100,000, which includes $ 60,000 of additional unforeseen costs. This claim was verified and paid on 29 July 20X2, at the same time creating an additional obligation for the further $60,000 costs incurred.

Accounting entries for year ended 30 June 20X1:

The accounting for the commercial and Pakistan Navy and Army transportation should be considered separately.

Commercial transportation:

First the commercial transportation should be considered. By 30 June 20X1, the full service had been received by the United Nations, as the troops and equipment had reached the agreed destination by the year-end. Therefore, even though only 50% of the costs had been paid for by the end of the financial year, the entire expense should be recognized in the financial year as the service had been fully delivered.

The following accounting entries should therefore be recognized at 1 June 20X1 for the provision of the commercial transportation services:

Dr. Transportation expenses	$ 100,000	
Cr. Cash		$ 50,000
Cr. Accrued charges (liabilities)		$ 50,000

The expenses are entered at the point of inspection, or at the financial year-end.

Transportation under LOA with Pakistan Navy and Army:

At the end of the financial year, the transportation of troops and equipment was in mid-voyage with the Pakistan Navy, and no claim had been received by the United Nations for any costs to date. Transportation expenses should be recognised at the date of the start of the journey

As the journey is in progress at year-end, verification of delivery of the service had not been completed by the date of the preparation of accounts. It is however known that the ship has left Côte d'Ivoire prior to the financial year-end and that it is likely to arrive on time.

In this case, an expense for the full value of the LOA should be recognised as there is no indication of any changes to expected costs at the preparation date of the accounts.

In addition, the full loading expense should be recognized as this service had been fully provided by 30 June 20X1.

Total shipping expense incurred to 30 June 20X1	= $ 1,000,000
Total loading expense incurred to 30 June 20X1	= $ 20,000
Total expenses to recognize under LOA to June 20X1	**= $ 1,020,000**

The following accounting entries should therefore be made to recognize these expenses:

Dr. Transportation expenses (LOA)	$ 1,020,000	
Cr. Accrued charges (liabilities)		$ 1,020,000

An accrual is raised as no payment had been made by the end of the year.

Accounting entries for year ended 30 June 20X2:

Commercial transportation:

No further expenses should be recognized in the year ended 30 June 20X2 for the commercial transportation, as the service had been fully delivered and recognized as an expense in the previous financial year. The payment of the remaining 50% of the fees should however be accounted for as follows:

Dr. Accrued charges (liabilities)	$ 50,000	
Cr. Cash		$ 50,000

Transportation under LOA with Pakistan Navy and Army:

The additional $ 60,000 costs should also be recognized as an expense in the financial year, as although they were not verified and paid until after the financial year-end, they had been verified prior to the accounts preparation and related to the delivery of a service in the financial year.

No further expenses should be recognized in the year ended 30 June 20X2 for the shipping by the Pakistani Navy and Army, as the full expense of the service had been recognized in the previous financial year.

The unloading service was provided on 1 August 20X2 and thus an expense of $20,000 should be recognised for this amount at the point of delivery.

Additional unforeseen costs relating to transportation	= $ 60,000
Unloading costs	= $ 20,000
Total expenses to be recognised	**= $ 80,000**

Dr. Transportation expenses	$ 80,000	
Cr. Accrued charges (liabilities)		$ 80,000

This can be entered at the point of inspection or at the year-end.

Accounting entries for year ended 30 June 20X3:

No further expenses are recognized in the year ended 30 June 20X3 as the expenses for services had been fully recognised in prior financial years. Only the payment of the final claim should be recognized in the statement of financial position:

Dr. Accrued charges (liabilities)	$ 1,100,000	
Cr. Cash		$ 1,100,000

Note on emplacement costs:

Transportation expenses relating to the emplacement of troops and COE should be recognized in the same manner as described for Letters of Assist (i.e. recognition of an expense when the services are delivered to the United Nations and not when the obligation is raised under UNSAS).

4.3.6 AIR TRANSPORT

Letters of Assist may also be used to procure the use of aircraft services for air transport purposes. These will typically include the use of helicopters in areas of difficult terrain, or where certain strategic requirements exist. The United Nations will purchase an all-inclusive service (i.e. inclusive of pilots, fuel, maintenance, etc.), not only the "rental" of the helicopter itself. Costs are usually based on the number of flight hours the aircraft have been used for, with a log of flight hours accompanying the invoice after the service has been provided.

The costs of these air transport services should be recognized in the period in which the service is delivered to the United Nations, and not the date of the requisition or payment of the invoice. Should the use of an aircraft fall across two or more financial years, the expenses relating to the services should be split between the financial years based on the actual delivery of service in each financial year, even where invoices have not yet been received or paid.

Again, the inspection of services at the financial year-end is vital in understanding the degree of service delivery, and therefore expenses incurred, by the financial year-end. If possible, the number of flight hours used up to the financial year end should be obtained in order to establish the correct expenses to accrue.

Example – Air transport across Sudan

A field mission in Sudan requires the regular transportation of troops and equipment to be flown between Khartoum and a remote military outpost. The United Nations signs an LOA with the Ethiopian Government for the use of helicopters to transport the troops and equipment. The LOA is based upon a total of 5,000 flight hours at a cost of $3,000 per hour for $ 15,000,000 total cost to be used between 1 January 20X1 and 31 December 20X1.

The United Nations requests a record of the flight hours incurred to 30 June 20X1, which indicates that 3,000 flight hours have been used in the first 6 months of the calendar year. A claim for costs for $ 15,000,000 is received from the Ethiopian Government on 25 February 20X2 and is verified and paid on 31 March 20X2.

<u>Accounting entries for year ended 30 June 20X1:</u>

Even though a claim from the Ethiopian Government was not received until 20X2, the expenses for the air transport should be recognized in the period in which they were incurred (i.e. the financial year in which they were delivered).

Therefore, based on the information received from the Ethiopian Government, 3,000 out of the 5,000 planned flight hours had been used by the end of the financial year, and an expense should therefore be recognized for these flight hours.

The expense to be recognized may be calculated as follows:

Service provided = $ 3,000 per hour * 3,000 hours = $ 9,000,000

The following accounting entries should therefore be made to recognize these expenses:

Dr. Air transport expenses (LOA) $ 9,000,000
Cr. Accrued charges (liabilities) $ 9,000,000

An accrual is raised as no payment had been made by the end of the year.

The provision of the additional information regarding flight hours as at 30 June 20X1 is therefore critical in determining the extent to which a service has been delivered by the financial year-end.

<u>Accounting entries for year ended 30 June 20X2:</u>

In this financial year, the remaining 2,000 flight hours are used by the United Nations and there an expense should be recognized in this period given that a service has been delivered in this financial year.

The expense to be recognized may be calculated as follows:

Service provided = $ 3,000 per hour * 2,000 hours = $ 6,000,000

The following accounting entries should therefore be made to recognize these expenses and payment of the invoice:

Dr. Air transport expenses (LOA) $ 6,000,000
Dr. Accrued charges (liabilities) $ 9,000,000

Cr. Cash	$ 15,000,000

Note – the triggering event for the recognition of the expense in this period is the provision of the service, and not the payment of the invoice; should the invoice remain unpaid by the financial year-end, the expense would still be recognized, providing the service had been delivered to the United Nations.

4.3.7 UNITED NATIONS VOLUNTEERS COSTS (UNHQ MANAGED SERVICES)

The United Nations may use the services of United Nations Volunteers during the course of some of its overseas missions. Whilst the United Nations does not pay salaries to volunteers, it must cover expenses such as pre-departure expenses, flights and overhead costs paid by United Nations Volunteers (Bonn). Maximum annual costs are agreed at the start of the financial year between United Nations and United Nations Volunteers through an Exchange of Letters (EOA), and costs formally charged to the United Nations through a year-end invoice.

The period covered by the year-end invoice coincides with the United Nations' financial year, and therefore the invoice will already reflect delivery of services in the correct financial year. The United Nations should therefore use the expenses contained in this year-end invoice when recognizing year-end expenditure in this area. In the (rare) absence of invoices at the date of the preparation of the accounts, an estimate of the expenses should be made based on the amounts contained in the EOA.

4.4 Short term employee benefits

4.4.1 TRAVEL EXPENSES

Staff travelling for United Nations business purposes on missions to field offices or other locations may incur a number of costs relating to the journey.

These costs include three main categories:

- Travel to the location of work (including terminal expenses);
- Subsistence costs; and
- Other miscellaneous costs (e.g. excess baggage, non-local travel within destination country).

In addition, costs may be incurred by the United Nations relating to travel undertaken by non-Secretariat staff (e.g. other United Nations entities outside the Secretariat or Government Officials).

Cost of Travel tickets

Travel tickets are usually booked in advance of the day of the journey and in many cases involve a return journey for a later date. The purchase orders for these tickets are therefore raised in advance of the outward and return journeys.

The expenses for these tickets (including the cost of the return journey) should be recognised in full in the reporting period of the date of the outward journey, and **not** on the date of the ordering or receipt of the travel tickets.

Terminal expenses cover travel to and from ports of travel (usually taxis or trains to airports) and should also be recognised in full in the reporting period of the date that the outward journey travel takes place, usually the same day as the journey covered by the travel ticket.

Subsistence costs

Daily Subsistence Allowances (DSA) are paid to staff in advance of the start of missions based on the period initially planned overseas. The DSA daily rate is specific to the location and length of visit, and covers hotel, meal and local travel costs plus any minor incidental costs. Following completion of a mission, an adjusting claim is entered by the member of staff in which any additional costs or changes to the length of the mission are stated should the mission be extended or curtailed. In such cases, staff may need to repay additional DSA received, or alternatively staff may be entitled to further DSA on top of the advance.

Expenses for DSA should be recognised on the first day of the mission, and not at the point of payment to staff as an advance. Therefore, if an advance had been paid to a member of staff before the financial year-end but the mission did not start until the next financial year, no expense would be recognised until the mission had started. Instead, a "staff advance" prepayment asset would be recognised at the year-end.

Other miscellaneous costs

Claims for **other expenses** (e.g. excess baggage) may also be received through claims from staff on their return from a mission. These claims are typically low in value compared to the travel and DSA costs.

Again, these expenses should be recognised at the date that they were actually incurred by staff. However in practice this may be difficult to achieve without receiving the claims.

Where precise details of the exact costs are unknown at the year-end (for example if staff are still on the mission at the year-end and have not yet submitted an expense claim by the end of the year), expenses should only be recognised for claims received up to the year-end. Further claims should be recognised as expenses on receipt of the claims. Any advances should be recognised as "staff advances" on the statement of financial position until the necessary expense claims are received.

Travel by Government officials

In a number of cases, **Government officials** may accompany United Nations missions or attend United Nations conferences, and pay for their own travel expenses up-front. The **Governments** in question will then submit a travel claim after the mission or conference to the United Nations, which is inspected and paid to the Government by the United Nations if valid. Governments may submit claims up to two years after the journey.

The timing of recognition of the expenses will follow the delivery principle, whereby the expenses are recognised in the period in which they are incurred by the Official. This means that the travel expenses should be recognised on the date of the outward journey of the Official, and not the date of the receipt of the claim or the date that tickets were purchased by the Government.

In such cases, the United Nations should accrue expenses at the end of the financial year for those claims which are not yet received by the end of the year. An estimate of the costs involved may be required based on the budgeted amounts for each Government.

Note: *Travel by Government officials is not considered to be an "employee benefit" under IPSAS but has included in this section for illustrative purposes.*

Example – Overseas mission to field office

In June 20X2, a mission to a field office by a member of staff is planned for 1 September 20X2 to 31 January 20X3 (153 days). Return flights are booked and paid on 20 August 20X2 for travel on these dates, with the tickets delivered to the member of staff on 1 September 20X2.

Rates for DSA and terminal expenses are consistent for each day worked in the field office and paid in advance on 28 August 20X2 to the member of staff in advance of the mission. Miscellaneous costs, such as trains and interpreters fees are due to be paid by the official whilst on the mission and reclaimed on their return in February 20X3. An advance of $200 for miscellaneous expenses is paid on the same day as the DSA advance.

- Financial year-end: 31 December
- Cost of flights: $ 1,350 return (including $ 50 booking fee).
- DSA rate: $ 300 per day
- Terminal expenses: $ 30 per journey to/from airport
- Budget for misc. expenses $ 400
- Actual misc. expenses claims $ 380

Accounting for flights and assignment grants:

The full expense for the flights should be recognised on 1 September 20X2 (the date of the outward flight taken by the member of staff). The booking fee should be recognised in the year in which the booking service was required (20 August 20X2).

DSA and terminal expenses are paid in advance, therefore a receivable in the form of a "staff advance" should be recognised on the date of payment of the cash to the staff member. The expense is then recognised on the first day of the mission, reducing the advance.

Total DSA costs are calculated as:

153 days * $300 per day = $ 45,900

The following accounting entries should be raised to recognise these transactions:

Year ended 31 December 20X2:

Flights and fees:

Dr. Travel expenses (Flights)	$ 1,300		[= (1,350 – 50)]
Dr. Travel expenses (Fees)	$ 50		
Cr. Cash / payables		$ 1,350	

*(**Note** – if the flights were paid prior to the year end, but the journey not made until the next financial year, a pre-payment asset should be recognised at 31 December and the expense recognised in the next financial year).*

DSA and terminal expenses:

On payment of the advance:

Dr. Staff advances	$45,960	
Cr. Cash		$45,960

On first day of the journey:

Dr. Travel expenses (DSA) $ 45,900

Dr. Travel expenses (Terminal expenses) $ 60

Cr. Staff advances $45,960

Year ended 31 December 20X3:

No further expenses are recognised in 20X3 for flight and assignment grants as the full expenses have been recognised in 20X2.

Accounting for expense claims:

A budget of $ 400 has been established for miscellaneous expenses for the entire mission, with an advance of $200 paid prior to the year-end. Given that the claims will be received in 20X3 and exact timing of when the costs were incurred is not known, a staff advance should be recognised at the point of payment of the advance to the member of staff.

No expenses should therefore be recognised at the year-end. Instead, the expenses should be recognised following receipt of the expense claims in the next financial year.

The accounting entries are therefore as follows:

Year ended 31 December 20X2:

On payment of the advance to the member of staff:

Dr. Staff advances $ 200

Cr. Cash $ 200

Year ended 31 December 20X3:

On receipt and payment of cost claim for $ 380 (actual costs):

Dr. Staff expenses $ 380

Cr. Staff advances $ 200

Cr. Cash $ 180

4.4.2 EDUCATION GRANTS

Education grants for staff and their families are typically paid to staff at the start of an academic year and cover costs for the full academic year, which may span more than one financial year. In such cases, expenses should be recognised in the period in which the related benefit is provided.

Therefore, even though an advance has been paid to the official at the start of the academic year, the expense should be recognised over the whole academic year on a monthly pro-rated basis. Any balance remaining at the end of the financial year should be classified as a staff advance (within other current assets) in the statement of financial position.

Complications may exist whereby the academic year for the children of all staff in a field office or Headquarter office may not coincide. For example, a field office in Nairobi may pay school fees to staff for their children at school in New York, Tokyo and Sydney. Each city may follow a different academic year and therefore the expenses for the school fees will need to be accrued over different periods depending on the school year.

In such cases, the expenses should be accrued based upon the estimated academic year of each child in question.

Equally, a member of staff may join the United Nations mid-way through a financial year or academic year. In such cases, the expense for education grants should be recognised in line with the time that the child of the member of staff received education services, as noted above, assuming that the education grant they are paid will also be pro-rated.

Example – Timing of recognition of education grant for children of staff

The United Nations Office at Nairobi (UNON), Kenya employs 20 members of staff with a total of 30 children entitled to education grants. The children go to school as follows:

- 2 in Sydney, Australia - 1 February 20X1 to 30 November 20X1
- 25 in Nairobi, Kenya - 1 September 20X1 to 30 June 20X2
- 3 in Beijing, China - 1 October 20X1 to 30 July 20X2

Education grants of $4,000 per year per child are paid to staff on 1 January 20X1 for the forthcoming academic years. A total of $ 120,000 was therefore paid to staff at start of the year for the 30 children. The financial year end is 31 December.

Accounting entries for year ended 31 December 20X1:

Initial cash payment

Expenses for the education grants should be recognised in line with the delivery of the service provided, in this case the education services provided by the schools through the academic year. The cash paid at the start of the year should therefore be accounted for as a staff advance (prepayment) until the services are delivered by the schools in question:

Dr. Staff advances (education grants) $ 120,000

Cr. Cash $ 120,000

Children studying in Australia

For the two children in Australia, the academic year falls fully in the financial year ended 31 December 20X1 and therefore the full expense for the education costs of these two children payable by the United Nations should be recognised in full in 20X1:

Expense to recognise = 2 * $4,000 * (10 / 10 months) = $ 8,000

Dr. Staff expenses (education grants) $ 8,000

Cr. Staff advances (education grants) $ 8,000

This should be recognised on 1 February 20X1.

Children studying in Kenya

For the 25 children studying in Kenya, only part of the academic year is included in the financial year 20X1. Only part of the education services have been delivered to the children in 20X1 and therefore an expense should be recognised for this portion only. The calculation of expenses should be based on pro-rating the total education grant costs by the number of months of education delivered in 20X1:

Total number of months education =	1 September 20X1 to 30 June 20X2	= 10 months
Number of months education in 20X1 =	1 September 20X1 to 31 December 20X1	= 4 months
Number of months education in 20X2 =	1 January 20X2 to 30 June 20X2	= 6 months

Therefore, the total expense to be recognised in 20X1 for these children is:

= 25 * $ 4,000 * (4 / 10 months) = **$ 40,000**

The following accounting entry should be made to recognise these expenses;

Dr. Staff expenses (education grants) $ 40,000
Cr. Staff advances (education grants) $ 40,000

This adjustment can be made at year-end.

Children studying in China

For the two children studying in China, only part of the academic year is included in the financial year 20X1. Only part of the education services have been delivered to the children in 20X1 and therefore an expense should be recognised for this portion only. The calculation of expenses should be based on pro-rating the total education grant costs by the number of months of education delivered in 20X1:

Total number of months education =	1 October 20X1 to 30 July 20X2	= 10 months
Number of months education in 20X1 =	1 October 20X1 to 31 December 20X1	= 3 months
Number of months education in 20X2 =	1 January 20X2 to 31 July 20X2	= 7 months

Therefore, the total expenses to be recognised in 20X1 for these children is:

= 3 * $ 4,000 * (3 / 10 months) = **$ 3,600**

The following accounting entry should be made to recognise these expenses:

Dr. Staff expenses (education grants) $ 3,600
Cr. Staff advances (education grants) $ 3,600

This adjustment can be made at year-end.

Therefore, total **expenses of $ 51,600** will be recognised in 20X1 for the 30 children. Staff advances of **$ 68,400** will remain as a **prepaid asset** on the Statement of Financial Position at 31 December 20X1.

<u>Accounting entries for year ended 31 December 20X2:</u>

In 20X2, the remaining education services will be provided to children and recognised as an expense, reducing the staff advance prepayment to zero. The expenses recognised in 20X2 will be:

Australia	= 2 * $ 4,000 * (0 / 10 months)	=	**$ 0**	(All expenses recognised in 20X1)
Kenya	= 25 * $ 4,000 * (6 / 10 months)	=	**$ 60,000**	
China	= 3 * $ 4,000 * (7 / 10 months)	=	**$ 8,400**	
Total expenses for 20X2		**=**	**$ 68,400**	

The following accounting entry should be made to recognise these expenses:

Dr. Staff expenses (education grants)	$ 68,400	
Cr. Staff advances (education grants)		$ 68,400

This entry can be made on 1 January 20X2.

No staff advances will remain as a **prepaid asset** on the statement of financial position at 31 December 20X2 relating to the payment on 1 January 20X1.

4.4.3 STAFF ON-BOARDING EXPENSES

On-boarding is defined as the processes of deploying a selected candidate to a mission, including the determination of grade, issuing the offer of employment, arranging travel and scheduling participation in required training and orientation programmes.

In many cases, staff will need to relocate from their normal country of residence to the country in which they hold their United Nations post before they begin formal employment in that position. The United Nations will pay new staff members an advance to cover costs such as their travel tickets and shipping of personal goods. In addition, salary is payable to the member of staff for the travel time incurred, even if this is before they start formal employment.

These costs should be recognised as expenses in the period in which the related services are delivered (by the supplier of services), and not when the cash advance is paid to the member of staff. For example, expenses for flights should be recognised on the date of the flight, and luggage shipping on the date (s) of shipping, even if this is before formal employment starts. Equally, if lump-sum grant is paid to a staff member in years one and three of an assignment, covering two years with each payment, the expense for the grant should be split between the two years. Thus in the first and third years, a "receivable" for the advance will be recognised for 50% of the payment.

Should a lump-sum payment be made to a member of staff where no proof or documentation is required from the member of staff regarding the expenditure related to the payment, and the United Nations has no right to recover the payment under any circumstances, an expense should be recognised immediately in full upon payment.

4.4.4 Note on adjustments to claims and entitlements

In some cases, there may be changes to the length of missions or the status of a member of staff. For example, a mission may be curtailed for security reasons, or a member of staff may leave the United Nations before the period covered by the Education Grant ends. In such cases, the United Nations may need to recover advances from staff or adjust their entitlements.

In these situations, the United Nations should make adjusting entries only at the point at which the amendment to the missions or employment circumstances is known. This means that prior to this, the accounting entries to recognize expenses and advances for the original payment of advances and grants to staff should be made on the assumption that the mission or employment status of the staff member will remain as planned.

For example, if a member of staff receives an education grant and is planned to remain at a post for the period of the education grant, the grant should be pro-rated as described above in section 4.4.2 above. If, after the issuing of the financial statements, the member of staff leaves the United Nations before the end of the academic year, an adjustment to reduce expenses and recover the relevant portion of the advance should be made in the next financial year.

5 SPECIFIC TOPICS

5.1 Splitting unliquidated obligations into delivered and undelivered portions

5.1.1 BACKGROUND

At the end of the financial year, particular attention should be given to the delivery principle when preparing year-end accounting adjustments. As noted above, IPSAS requires that "*transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid).*"

As noted in section 1, this differs to UNSAS, where "expenditure" is recognised when "disbursement or unliquidated obligations made against the appropriation/allocation of the period". When procuring goods and services, an "obligation" is raised for the expenditure under UNSAS (obligatory for purchases over $4,000). This "obligation" is then "liquidated" upon payment of the related invoices. At the end of the financial year, there may be several **"unliquidated obligations" (ULOs)** where the payment of invoices has not yet been made, has been made partially, or where invoices have not yet been received. Of these **ULOs,** a proportion may relate to goods and services that have in fact been <u>delivered in the financial year</u>. <u>Timing of delivery</u> is therefore crucial to the timing of recognition of the transaction.

ULOs may exist for a variety of categories of "expenditure" at year end, including:

Type of contract (ULO)	**'Delivered portion' of goods and services**
Services provision (e.g. utilities)	Value of service rendered up to year-end (e.g. pro-rated portion of next utility invoice).
Purchase Orders for goods and assets (including purchase of fixed assets & leasehold improvements)	Value of goods/assets received by year-end based on Incoterms.
Service Purchase Orders (non-transport related)	Value of service rendered up to year-end.
Service Purchase Orders (services associated with transport of goods)	Value of service rendered up to year-end.
Human Resources contracts (e.g. SSAs, consultancy contracts)	a) None if specific deliverable is not completed by year-end; b) Value of service rendered up to year-end.
Conference & meeting expenses	a) None (if conference/meeting will only commence in the next financial year) b) Value of service rendered as year-end if conference/meeting has already started by year-end.

Author's contracts	Value of service rendered up to year-end.
Goods-related services Purchase Orders	Value of service rendered up to year-end.
Implementing Partner Purchase Orders (e.g. services provision)	Full expenditure amount mentioned in delivery report as at year-end.
End beneficiary outright grant transfers for funding period of financial year	Full amount of transfer approved at year-end.
Direct Implementation by the United Nations	Full amount of ULO if the United Nations has evidence that the cash or equivalent benefit with regard to that activity has been handed over to the beneficiaries by the year-end.

The table below indicates the key scenarios relating to payment and the point of delivery under IPSAS and UNSAS:

Scenario for services or goods delivery and payment	**ULO exists?**	**Recognition**	
		IPSAS (expense/asset)	**UNSAS (expenditure)**
Delivered and paid	No – fully paid	**Yes**	**Yes**
Delivered and not paid	**Yes - unpaid**	**Yes**	**Yes**
Not delivered but paid *	No – fully paid	**No (prepayment only)***	**Yes**
Not delivered and not paid	**Yes - unpaid**	**No**	**Yes**

** = See "systems notes" in section 5.1.2.1 below.*

ULOs may therefore exist where services or goods may or may not have been delivered; the key change under IPSAS is that only the delivered portions should be recognised as expenses or assets.

Under the United Nations procurement procedures, all purchases of goods and services must have a related budgetary obligation raised prior to ordering and delivery. As such, the year-end list of all ULOs will contain a complete listing of all possible goods and services where additional accounting transactions will need to be recognised at the year-end for IPSAS financial reporting purposes.

The exception to this is assets and services which are donated to the United Nations (assets and services in-kind), for which no purchase order is raised, and hence where no ULO will exist at the end of the year. Staff receiving donated goods and services on behalf of the United Nations should communicate with finance officers and/or asset/property management teams where services and goods have been donated so that the appropriate accounting treatment can be considered under IPSAS 23 *Revenue from non-exchange transactions*. We refer also to Corporate Guidance #5 Funding Agreements.

5.1.2 METHODOLOGY FOR SPLITTING ULOS AT YEAR-END

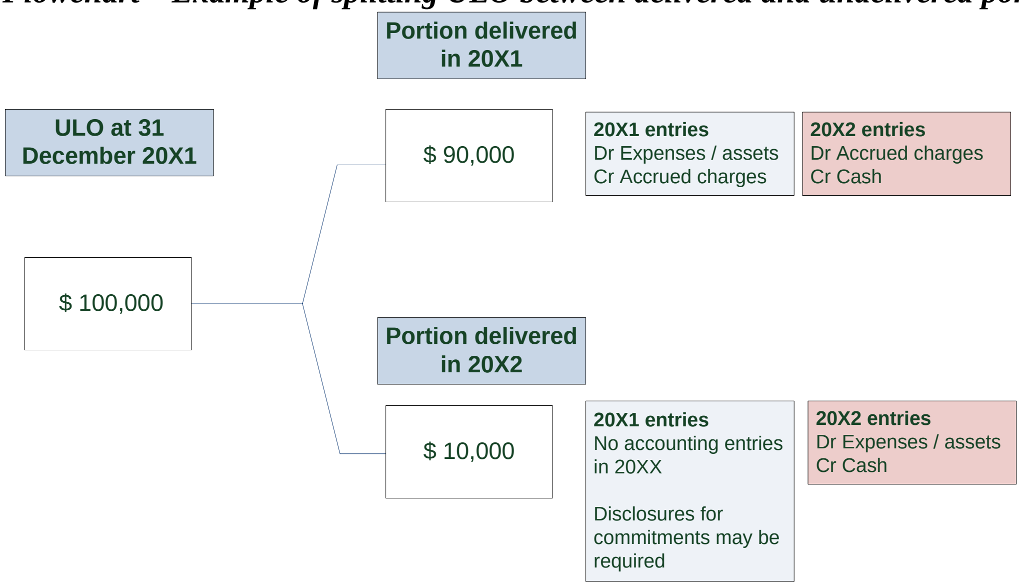
The value of the year-end ULOs must therefore be split between into delivered and undelivered portions when preparing the financial statements at the end of the financial year:

1. **Delivered portions:** Only the value of the ULO relating the service or goods delivered up to the year-end should be recognised in the financial statements of that financial year through a year-end accrual.

2. **Undelivered portions:** The remaining ULO relating to services or goods to be delivered after the year-end is not recognised as an expense or asset in the financial year. In some cases, disclosures may be required regarding these amounts if they relate to property, plant & equipment or operating leases, as IPSAS requires additional disclosures regarding **capital commitments and operating lease commitments** (see Corporate Guidance #10 Property, Plant & Equipment and Corporate Guidance #1 Leases for further disclosure requirements).

The flowchart below shows a simple example of how a ULO may be split:

Flowchart – Example of splitting ULO between delivered and undelivered portions



5.1.2.1 UNSAS systems notes

The following section has been included to illustrate the concepts which need to be considered to produce IPSAS-compliant financial statements. This does not replace detailed systems guidance, which should be used to determine the precise manner in which year-end accounting entries are entered in the accounting system.

Expenditure already recorded under UNSAS:

The entries above which recognise additional expenses for portions of ULOs delivered in the financial year assume that no expense in the financial year has been recognised in the financial statements prior to these entries. In reality, the equivalent expenditure has been already been recognised in the general ledger configured for UNSAS, for the full value of the ULO. For recognition of expenses under IPSAS, the adjusting accounting entries are as follows:

The first accounting entry should be to reduce expenditure (UNSAS) by the full value of the ULO:

Dr. Unliquidated obligations $ [full value of ULO]
Cr. "Expenditure" (UNSAS) $ [full value of ULO]

This will reverse the "expenditure" relating to ULOs under UNSAS; the correcting entries under IPSAS can then be made to recognise either expenses or assets on delivery of the goods and services:

Assets:

Dr. Assets (PP&E, inventory, intangible assets) $ [value of assets delivered]
Cr. Liabilities (Accounts payable / accruals) $ [value of assets delivered]

Expenses:

Dr. Expenses $ [value of goods/services delivered]
Cr. Liabilities (Accounts payable / accruals) $ [value of goods/services delivered]

See section 3 above for further guidance on differentiation between assets and expenses under IPSAS.

Payments for good or services not yet received

In some cases (e.g. rent or subscriptions), the United Nations may pay for goods or services in advance, in which case an obligation is raised (obligatory for purchases over $4,000) and then liquidated prior to the "delivery" of the goods or services . As a result, no ULO will exist the end of the financial year for these goods or services, and expenditure will be recognised under UNSAS.

Under IPSAS however, an expense or asset should be only recognised on "delivery" of the goods or services. Therefore, if goods or services have been partially "delivered" at the financial year-end, only the "delivered" portion should be recognised as expenses or assets in the financial year. The remaining portion of the liquidated obligation should be recognised as a **pre-payment** asset in the financial statements, and not as expense, PP&E, inventory or intangible asset**.** If no services or goods had been "delivered" by the financial year-end, the full amount of the payment should be recognised as a pre-payment.

A year-end adjustment should therefore be made at the year-end to reduce expenditure recognised under UNSAS:

Dr. Prepayment (asset)	$ [value of "undelivered" portion of payment]
Cr. "Expenditure" (UNSAS)	$ [value of "undelivered" portion of payment]

On a practical note, identification of such cases can be performed through a review of obligations liquidated up to and including the year-end, and through information requests made to budget holders at the same time as the year-end ULO review.

Note: *The adjustments noted above are to be made to enable the preparation of IPSAS Financial Statements; the budgetary reporting will remain unchanged. Differences will thus exist between the budgetary reporting and IPSAS financial reporting at the end of the financial year. Such differences will be identified through a reconciliation note in the IPSAS financial statements in line with IPSAS 24 – "Presentation of Budgetary Information in Financial Statements".*

5.1.3 Provision of information relating to the split of ULOs

In many cases, the Finance Officer preparing the accounting entries for this split may require assistance from Procurement, Project Officers and finance and budget officers in order to determine which services and goods have been delivered by the year end. This is an important component in the change to IPSAS; key information for financial statement preparation will increasingly be held by non-finance staff. The co-operation of non-finance officials is therefore critical in determining the year-end accounting entries derived from the review of ULOs.

The request for information from Project Officers relating to year-end accruals may be combined with the annual budget carry-forward exercise where appropriate; this will also help identify which ULOs are no longer likely to be liquidated and therefore can be closed. Project officers should provide finance officers with the split between delivered and undelivered portions of the ULO, together with supporting documentation. Detailed guidance should be provided to project officers in advance of year end to allow sufficient preparation of the relevant information.

Note: whilst the outstanding value of the ULOs can be used to assist in determining an estimate of amounts to be accrued at the year-end for IPSAS financial reporting purposes, Finance Officers should not just simply accrue the full value of the ULO without considering the actual delivery of the goods and services. Assessment of delivery should be made on a case by case basis for every ULO.

5.1.4 USE OF ESTIMATIONS IN SPLITTING ULOS AT YEAR-END

The measurement of the expense or the asset delivered by the year-end will depend on the best reliable estimate of the expenses incurred or the value of the asset delivered up to the end of the financial year.

In some cases, it may not be possible to determine the precise value of goods and services delivered prior to the year-end without an invoice or statement from the supplier. Where this information is not available, an estimate of the amounts should be made. Under IPSAS, a minimum level of accuracy is necessary for an estimate to materially and faithfully represent economic reality, however IPSAS do not require absolute completeness, neutrality or accuracy in the estimates of amounts, recognising that, by their very nature, estimates will not be free from immaterial error.

The key factor to consider is that the estimate should be the best possible one made from the information that is available or obtainable by the United Nations. Any adjustments to estimates made in one financial year will be made in the next year's financial statements on receipt of the necessary invoices or documents supporting the real value of the expense or asset. In addition, under IPSAS 3 – "Accounting Policies, Changes in Accounting Estimate and Errors", changes in accounting estimates are adjusted prospectively.

The level at which an obligation (UNSAS) is raised will also influence the accuracy of the estimate made at the year end; global obligations for missions containing several different costs and contracts will require more resources to split out at year-end than obligations raised at an individual contract level. Raising obligations at lower level of expenditure will therefore assist the year-end ULO splitting exercise and provide better detail on the management of the United Nations' budgets.

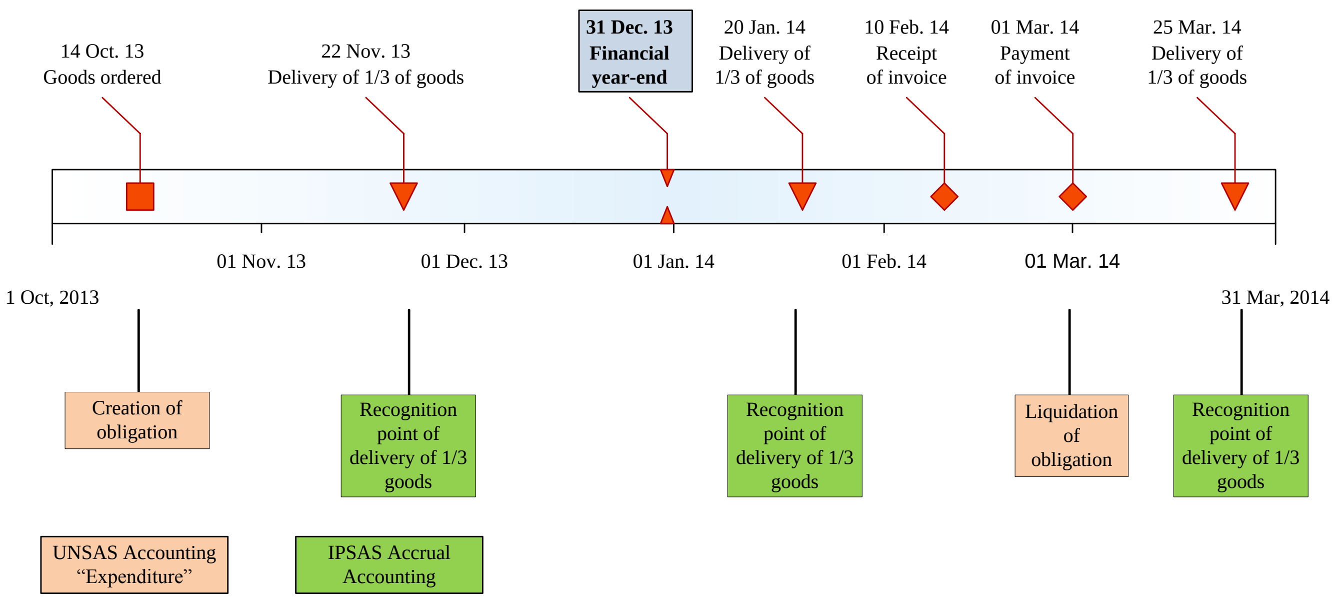
Any assumptions used in forming a best estimate need to be reliable and auditable. For further details on accounting estimates, please refer to Corporate Guidance #5 – Funding Agreements.

Note – Offices should use their own judgment when reviewing the value of ULOs to examine for the purposes of year-end accruals in line with materiality considerations.

Example – Delivery of satellite receivers (goods) to United Nations Office at Geneva (UNOG)

The United Nations orders three satellite receivers for UNOG on 14 October 20X3, and raises a budgetary obligation for $270,000 at that date. The satellite receivers are delivered individually in three deliveries where Incoterms are fulfilled on 22 November 20X3, 20 January 20X4 and 25 March 20X4. The invoice is paid for in full on 1 March 20X4, and the satellite receivers meet IPSAS 17 criteria for recognition of Property, Plant & Equipment upon delivery.

Timeline – Overview of ordering and delivery of satellite receivers



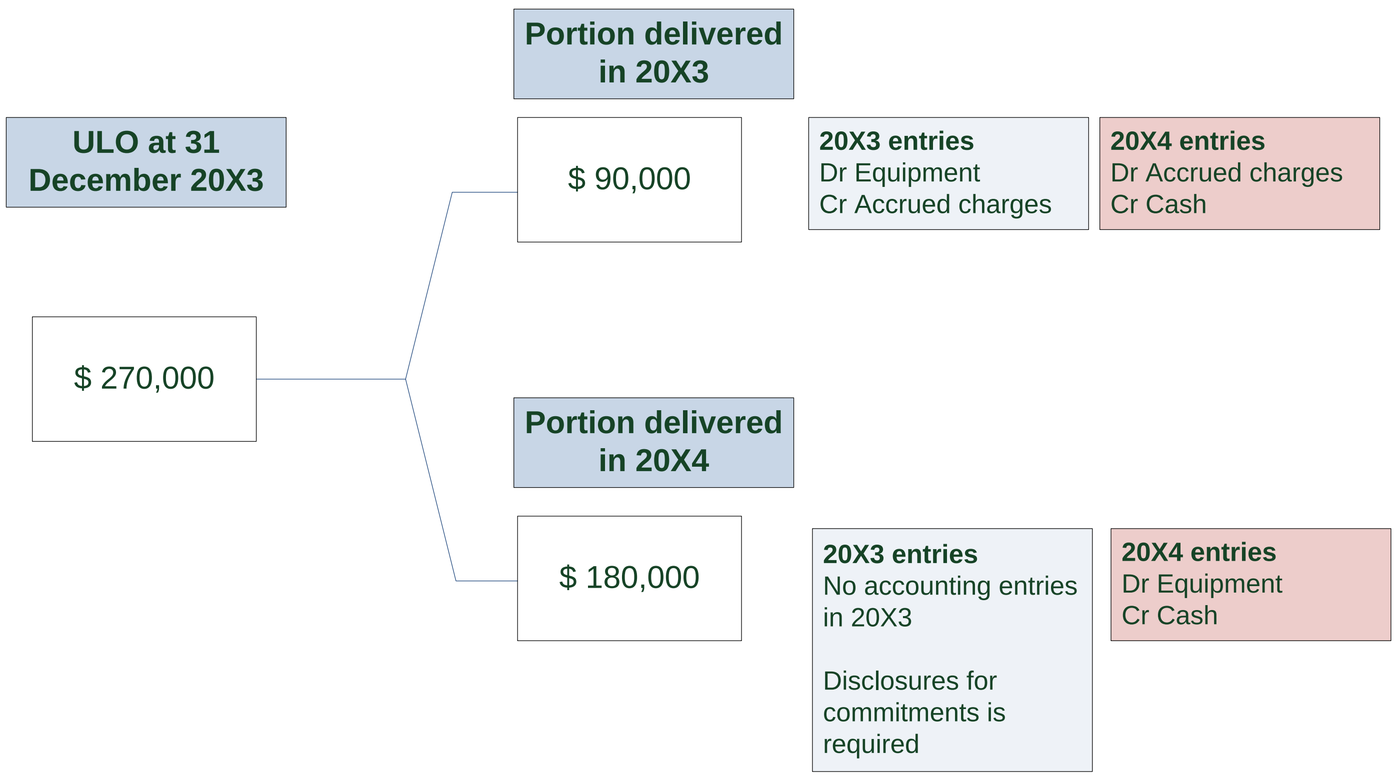
Accounting at 31 December 20X3

As at the 31 December 20X3, the ULO for these satellite receivers remained at $270,000, as no payments had been made prior to the year end. One-third of the goods ordered had however been received on 22 November 20X3 - prior to the year-end – and therefore the delivery of these satellite receivers should be recognised as Property, Plant & Equipment in the financial statements for the year. The remaining two-thirds of the satellite receivers were delivered after the year-end and therefore should only be recognised in Property, Plant and Equipment in the next financial year.

The ULO should therefore be split between those satellite receivers received prior to the year-end, and those received after the year-end:

Received in 20X3	=	$ 270,000 * 1/3	=	$ 90,000

Flowchart – Splitting of ULO for goods between delivered and undelivered portions



This amount should therefore be recognised as Property, Plant and Equipment in the financial statements for 20X3:

Dr. Property, Plant & Equipment (satellite receivers) $ 90,000
    Cr. Accrued charges (liabilities) $90,000

The remaining $180,000 of satellite receivers are not recognised in the 20X3 financial statements as these had not been delivered before the end of the year end. As the satellite receivers had been ordered before the year end, a capital commitment for these assets should however be disclosed in the notes to the financial statements under IPSAS 17.

n.b. *prior to this entry, the "expenditure" recognised under UNSAS should be reversed so that the correct entry can be made under IPSAS:*

Dr. Unliquidated obligations (UNSAS) $ 270,000
    Cr. "Expenditure" (UNSAS) $ 270,000

<u>Accounting at 31 December 20X4</u>

Recognition of the remaining Property, Plant & Equipment is made on delivery of the remaining satellite receivers in 20X4:

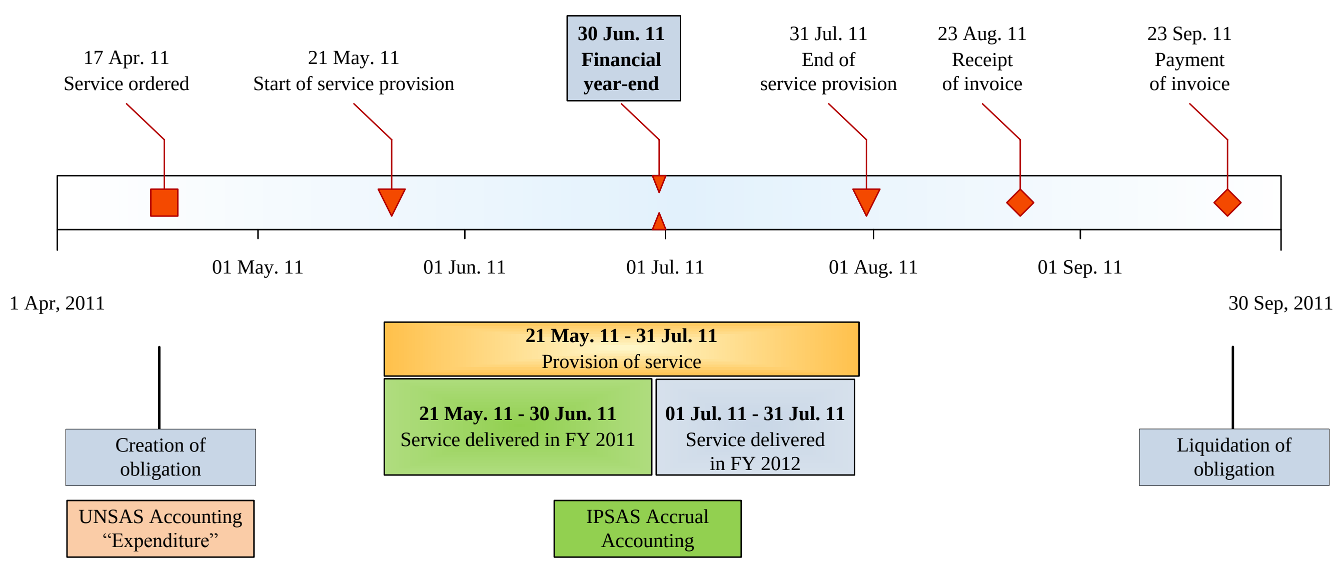
Dr. Property, Plant & Equipment (satellite receivers)	$ 180,000	
Cr. Accounts payable/cash		$180,000

The invoice for the $90,000 of Property, Plant & Equipment recognised in the 20X1 financial statements is also paid in 20X4.

Example – Facility maintenance services provided to United Nations Peacekeeping mission over two financial years

A field office arranges a short-term facility maintenance services for troops for a base from a commercial maintenance firm. The services are ordered on 17 April 20X1 and a purchase order for $720,000 raised at that point. The maintenance contract starts on 21 May 20X1 and ends on 31 July 20X1. An invoice is received on 23 August 20X1 and paid on 23 September 20X1, therefore at the financial year-end of 30 June 20X1, there is a ULO for $720,000.

Timeline – Overview of ordering and provision of facility maintenance services



<u>Accounting entries for year ended 30 June 20X1</u>

At the end of the financial year, a ULO of $720,000 remained open; however the provision of the maintenance service had already started prior to the end of the financial year.

An expense should therefore be recognised in the year ended 30 June 20X1 to reflect the portion of the service which has been 'delivered' to the United Nations in the financial year. The ULO will therefore be split between the delivered and non-delivered portions as at 30 June 20X1.

As part of the year-end ULO review, a request should therefore be made to the budget holder to provide details of the degree of service delivery at the year-end, based on the inspection of service delivery at that point where possible. This amount should be recognised as an expense at year-end.

In the absence of this information, the degree of service delivery may be estimated by pro-rating the total estimated expenditure (i.e. the ULO remaining following the year-end review exercise) up to the financial year-end. In this case, the start and end date of service are readily available in the service contract thus the service incurred can be estimated easily.

The total length of the service provided is 72 days, 41 of which were included in the financial year. The pro-rated costs to accrue for the year ended 30 June 20X1 are therefore:

Expenses = $ 720,000 * (41 / 72 days) = $ 410,000

The accounting entry to recognise this expense is as follows:

Dr. Facility management expenses	$ 410,000	
Cr. Accrued charges		$ 410,000

n.b. *prior to this entry, the "expenditure" recognised under UNSAS should be reversed so that the correct entry can be made under IPSAS:*

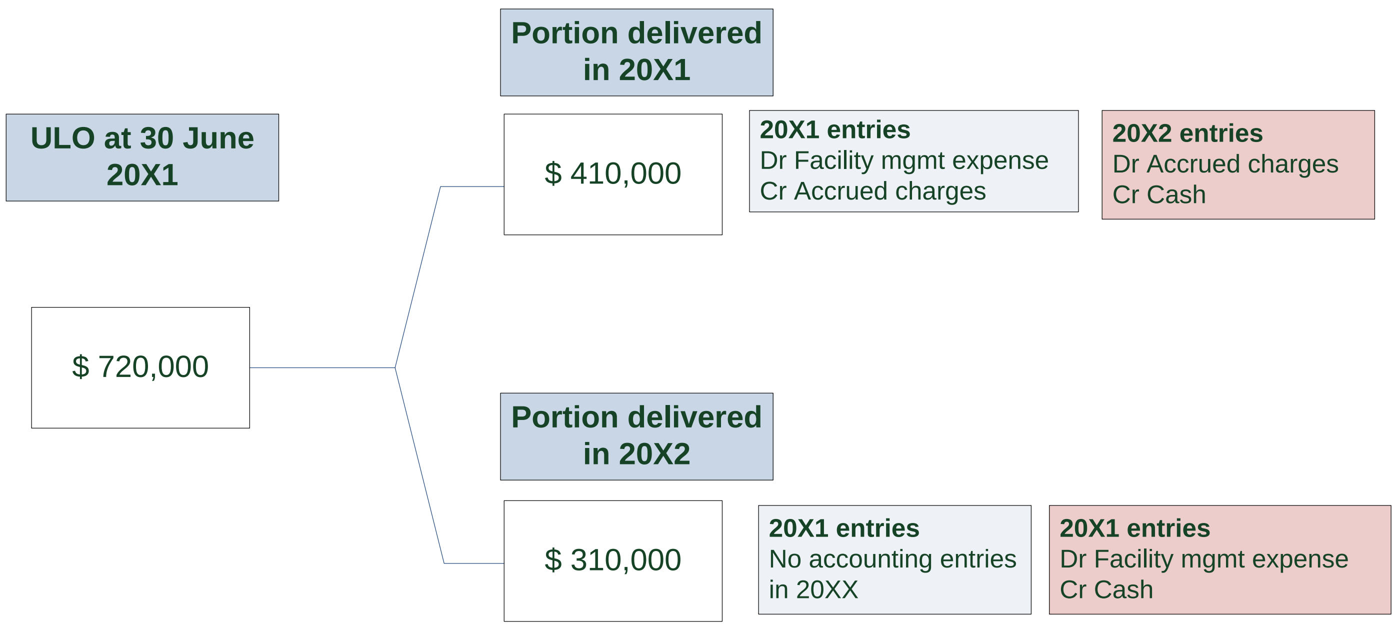
Dr. Unliquidated obligations (UNSAS)	*$ 720,000*	
Cr. "Expenditure" (UNSAS)		*$ 720,000*

<u>Accounting entries for year ended 30 June 20X2</u>

In the next financial year, the remaining service is provided and the invoice is paid:

Dr.	Facility management expenses	$ 310,000	
Dr.	Accrued charges	$ 410,000	
	Cr. Cash		$ 720,000

Flowchart – Splitting of ULO for services between delivered and undelivered portions



5.2 Procedures surrounding the tightening of receipt and inspection of goods received

5.2.1 BACKGROUND: TIMING OF DELIVERY

As noted in section 4.2 above, “delivery” of goods under IPSAS is dependent on the point of delivery set out in the **Incoterms** agreed between the United Nations and the supplier. The recognition of goods under IPSAS (either as an asset or as an expense) will therefore require changes to the receipt and inspection (R&I) processes currently employed by the United Nations under UNSAS, where goods are currently recognised as received when they arrive at a United Nations premises. A detailed list of Incoterms is provided in section 4.2 above.

Under IPSAS, many goods will need to be recognised at an earlier stage, as the Incoterms of some contracts may stipulate that the risks and rewards of ownership transfer to the United Nations before the goods arrive at United Nations premises (e.g. Ex-works Incoterms where risks and rewards transfer at the supplier’s factory). Such goods are known as “**goods in transit**” under IPSAS.

Furthermore, timing differences may arise between the physical receipt of goods at United Nations premises and the entry of goods receipt in the R&I register.

In each case, delays in the receipting of goods will lead to delays in the recognition of goods (as an asset or expense) within the United Nations financial statements. Recognition of the “delivery” of goods may therefore be recorded in incorrect financial periods.

The timely receipt and inspection of goods is therefore critical in the application of the delivery principle under IPSAS.

Example – Tightening of R&I procedures for United Nations Peacekeeping Operations

Goods are delivered to the United Nations under DAP (Delivered At Place) Incoterms on 27 June 20X1, where the transfer of risks and rewards of ownership of the goods occurs at a United Nations warehouse in Brindisi, Italy. This date is confirmed in the delivery docket provided with the goods delivered.

The formal “receipt and inspection” of the goods also takes place at the warehouse, however there is a significant time difference between physical delivery of goods and the inspection, which takes place on 16 September 20X1. This is after the date of the preparation of the accounts.

For the year-ended 30 June 20X1, the goods should be recognised (either as an expense or an asset) at the date of delivery on 27 June 20X1, using the information provided in the delivery docket. It is therefore essential that the person responsible for the initial receipt of goods on 27 June 20X1 provides the delivery docket details to the finance officer preparing the accounting entries.

Best practice would stipulate that the inspection of the goods should occur at the same time of delivery (i.e. on 27 June 20X1); however if this is impossible, inspection should be done as soon as possible after delivery. The recognition date of the asset or expense would however remain as 27 June 20X1.

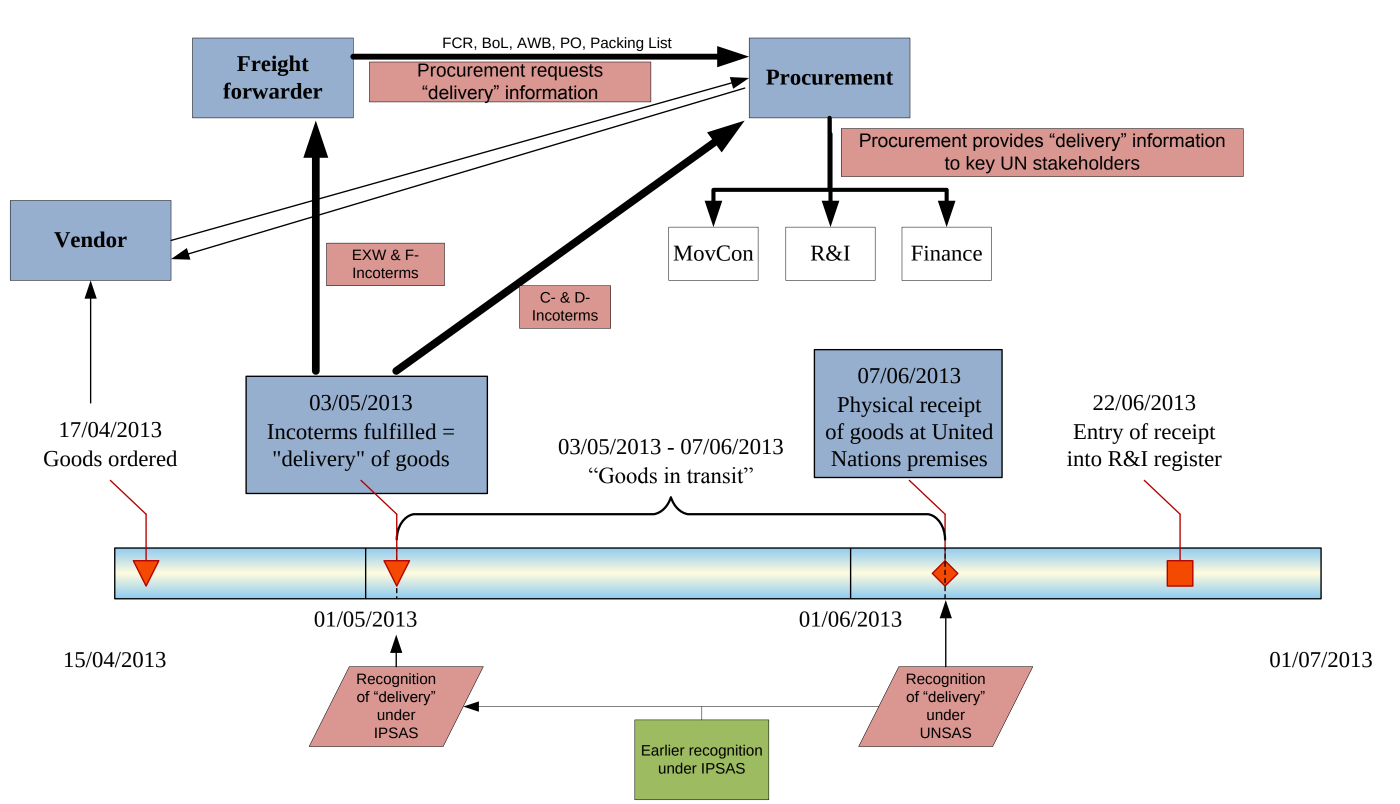
If the results of an inspection following the delivery of the goods are known after the year-end but before the date of accounts preparation, and indicate material issues with the quality or quantity of goods, this should be reflected in the accrual made for the assets or expenses. Any issues noted following the preparation of the accounts should be accounted for in the next financial year in an impairment of assets or reduction in expenditure.

5.2.2 IMPACT UPON R&I PROCEDURES

Given the need for accurate information regarding the actual date of "delivery" of goods under Incoterms, it is imperative that procurement teams request and receive timely information from suppliers and freight forwarders regarding the dates that Incoterms conditions have been met. These dates are typically provided in the Forwarder's Certificate of Receipt (FCR), signed Bill of Landing (BoL) or CMR waybill. Procurement sections will have a greater role in this process going forward as the gatekeepers of the necessary contract details and managers of relations with suppliers and freight forwarders.

Procurement will therefore need to obtain the necessary documentation from freight forwarders (for EXW and C- type Incoterms) and procurement representatives (C- and D- type Incoterms) to ensure that accurate dates of Incoterms fulfilment may be provided to R&I, Movement Teams, and finance stakeholders in a timely manner. The R&I teams in each area will then identify the necessary dates from the documentation provided by procurement and record the goods data to create the IPSAS financial transaction.

Flowchart –Information flow for receipt of goods



As a transitional measure, "delivery" information will need to be recorded manually by procurement teams. Integration of this information in the Umoja system is anticipated in the longer term.

6 PRESENTATION

6.1 Principal-Agent relationship

In a number of cases, the United Nations may purchase goods and services on behalf of other entities, such as Governments and NGOs, at the same time as procuring its own goods and services, and receive reimbursement from the Government or NGO for the cost of the goods or services.

For example, the United Nations may transport Government Officials to a mission on the same helicopter as Peacekeeping troops. Alternatively, the United Nations may purchase 20 armoured personnel carriers from a supplier, of which two are purchased on behalf of an NGO in the country in question.

In such cases, the accounting for such transactions will be governed by the nature of the arrangements between the United Nations and the Government or NGO. Should the United Nations act as an **agent** on behalf of these entities, the any revenue and expenses should be shown net in the statement of financial performance; only the commission or handling fees should be recognised as revenue, or alternatively a net expense recognised where the reimbursed amounts are lower than the costs incurred by the United Nations.

When the United Nations acts as a **principal** in such transactions, the revenue and expenditure should be recognised on a gross basis in the statement of financial performance, and any assets delivered to the United Nations recognised as assets in the Statement of Financial Position from the point of delivery to the United Nations and derecognised the point of delivery to the Government or NGO in question.

Determination of whether the United Nations is acting as **a principal** or as an **agen**t in any given arrangement will require judgement and consideration of all relevant facts and circumstances.

The table below summarises some of the considerations necessary when determining whether the United Nations is acting as a principal or **agent** and the **appropriate** accounting treatment:

	Agent	Principal
Risks and rewards	United Nations not exposed to significant risks and rewards associated with the sale of goods or the rendering of services.	United Nations exposed to the significant risks and rewards associated with the sale of goods or the rendering of services.
Indicators	The amount the United Nations earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the Government or NGO.	Where the United Nations: 1) has the primary responsibility for providing the goods or services to the Government or NGO, or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the Government or NGO; 2) has inventory risk before or after the Government or NGO order, during shipping or on return; **3)** has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and 4) bears the Government or NGO's credit risk for the amount receivable from the Government or NGO
Accounting treatment	Net revenue and expenses.	Gross revenue and expenses.

We refer to Corporate Guidance #5 – Funding Agreements for further guidance on Agent-Principal accounting.

7 APPENDICES

7.1 Case study: United Nations Peacekeeping mission in Chad

7.1.1 BACKGROUND

The peacekeeping mission is implementing IPSAS for the financial year 1 July 2013 to 30 June 2014.

Agreement of budget, Memoranda of Understanding and unliquidated obligations

On 25 February 2013, the United Nations Security council decides to deploy military troops in Chad on a peacekeeping mission. On 31 March 2013, the Office of Military Affairs/Police division determines the types of units to be deployed and equipment to be provided as per the project deployment schedule. The Field Budget Finance Division (FBFD) office prepares the cost estimates in line with the Contingent Owned Equipment (COE) manual. These cost estimates are finalized when the budget is approved by 30 June 2013. After the approval the cost centre raises an unliquidated obligation in August 2013 using a miscellaneous obligating document for 50% of the approved amount for the whole mission.

The United Nations Force Generation Service assists in the generation of troops. This office will send an invitation to the Member States who may be interested in providing troops for deployment. In September 2013 Draft MoU are prepared and negotiations are held with the Member States who agree to contribute the troops and COE.

Deployment of troops and COE

As agreed in the MoU, 300 troops and COE are deployed in the missions on 15 December 2013. One country which is required to deploy the troops on 15 December 2013 as per the MoU experiences delays and is unable to deploy its troops until 1 March 2014 (30 troops). A total of 330 infantry troops are therefore deployed in the mission as at 1 March 2014. The rate per troop is set at $1,028 per person month and troop strength analyses are received at the end of each month confirming the troop numbers. The daily amount payable for all the equipment was $10,000 upon deployment in a serviceable condition.

One country did not sign the MoU until the 28 June 2014 but had deployed 40 troops on 15 December 2013 (included in the 3,000 above). The country was not due to provide equipment.

Painting of COE

All equipment is painted in United Nations colours in December 2013. An arrival inspection report is prepared by mission staff. This arrival inspection report provides the verification of painting work done on equipment. It was agreed in the MoU that the United Nations will pay the painting costs at the time of receipt of arrival inspection report in March 2014. The total painting cost is $ 20,000.

Inspection of COE

The arrival inspection reports show that 95% of the COE had been delivered on 15 December 2013, with an additional 3% of COE delivered on 1 February 2014.

In addition to the arrival inspection report, periodic inspection is performed in January 2014 for the 15 to 31 December 2013 and in April 2014 for the first quarter of 2014. Verification reports are prepared and signed by mission heads in May 2014 and sent to headquarters for verification. The verification reports list all the equipment that is delivered and not yet delivered, and also list details of non-serviceable equipment. Two pieces of equipment were non-serviceable on delivery on 15 December 2013 and were not used in the mission. These two items were due to cost £100 per day each but under the terms of the MoU the United Nations will not pay for the use of this equipment if it is non-serviceable.

The verification report for the first quarter is reviewed by FBFD in June 2014 and adjustments are made for equipment not deployed and for equipment that was not serviceable during the reporting period. Review is also made for substituted equipment (which is of equal cost to the original equipment)**.**

Physical inspection of the COE for the second quarter of 2014 (i.e. April to June 2014) was due to be performed in September 2014 but was performed in August 2014 because UN decides to close the Mission in August 2014. As per MoU, United Nations is required to repatriate the troops back to their home country on the closure of the mission.

Invoicing and payment for COE and Troop Reimbursement

On 30 June 2014, the claims for the first quarter are certified by FBFD for payment and sent to the peacekeeping fund to determine the availability of funds to pay all countries with signed MoU. If funds are available claims are paid, otherwise the claims are placed in accounts payable – this analysis is completed on 16 July 2014 and payment made on 18 July 2014.

Unliquidated obligations review

The unliquidated obligations of August 2013 are reviewed in February 2014. A projection is made as to the funds required for the rest of the year, taking into the account the equipment not deployed and the rate of non-serviceable equipment. At this point in time, the cost centre raised the unliquidated obligation to 60% of the total approved amount.

Rotation of troops

Six months into the mission (i.e. on 15 June 2014), the United Nations is required to rotate the troops. The United Nations decides to go to the open market and follows a standard procurement process for requesting the facilities of aircraft for the rotation of troops on this mission.

A contract is awarded to one commercial air transport agency with the lowest bid. All troops leave Chad on of 15 June 2014 and arrive at their home destination on the same day. The 330 troops deployed in two tranches at the start of the mission are replaced by 330 new troops on the same day. Total travel costs are $ 660,000 ($ 1,000 per troop) and are paid in August 2014.

Further deployment of COE

Ten tanks were arranged to be deployed in the mission on 1 March 2014, with verification performed on 10 July 2014 (after the year-end but prior to the preparation of the financial statements). Due to neighbouring government restrictions, the deployment of one of the tanks was delayed and had not been delivered by the date of the verification.

The verification performed in July 2014 noted that one of the nine tanks deployed was unserviceable for the first four months of deployment. The standard daily rate for usage of a tank is $ 300 under the MoU, which was signed in April 2014.

Closure of mission

On 28 June 2014, the United Nations decides to close the mission on 18 August 2014 and repatriates troops on this date. LOAs are signed on 29 June 2014 to repatriate the troops.

7.1.2 ACCOUNTING TREATMENT FOR YEAR ENDED 30 JUNE 2013

By the 30 June 2013, no expense should be recognised under IPSAS for the peacekeeping mission, despite the fact that a budgetary estimate has been agreed by the end of the financial year. This is due to the fact that no services or goods had been delivered to the United Nations up to 30 June 2013 in relation to this mission; deployment of troops and COE does not occur until 15 December 2013 and therefore in the next financial year.

No expenditure would be recognised under UNSAS as the unliquidated obligation (ULO) was not raised until August 2013.

No commitments will require disclosure in the notes to the financial statements of the year-ended 30 June 2013, as no contractual commitments had been entered into at that point (all MoUs were signed later, in September 2013).

7.1.3 Accounting treatment for year ended 30 June 2014

Under UNSAS, the raising of a ULO in the year for 50% of the approved amount would result in the recognition of "expenditure" equal to the value of the ULO. Under IPSAS, only expenses or assets for services and goods "delivered" in the year would be recognised, thus the UNSAS "expenditure" should at first be reversed:

Dr. ULOs (UNSAS) [50% of "approved amount"]
Cr. "Expenditure" (UNSAS) [50% of "approved amount"]

The correct entries can then be recognised under IPSAS as detailed below.

7.1.3.1 Expenses for initial COE

Under IPSAS, COE is treated as an operating lease and expenses recognized on a straight-line basis over the life of the MoU. Expenses should therefore be recognized for the period from date of delivery of the COE on 15 December and 1 February to the year-end of 30 June 2014, excluding any non-serviceable COE. Recognition should not start at the point of the signature of the MoU or the date of physical inspection, but at the date at which the MoU conditions are met (i.e. the date at which delivery of serviceable COE is made).

Consideration should therefore be given in turn to the equipment delivered on 15 December 2013 and 1 February 2014, and also the equipment which was delivered by unserviceable:

Equipment received on 15 December 2013:

95% of equipment was received in a serviceable condition on 15 December 2013 and used by the United Nations for the 198 days up to and including 30 June 2014. The expenses for this equipment may therefore be calculated as:

95% * 198 days * $ 10,000 per day = **$ 1,881,000 expenses**

n.b. an adjustment for the non-serviceable equipment is made below.

Equipment received on 1 February 2014:

The 3% of equipment received on 1 February was used for 150 days to 30 June 2014. The expenses for this equipment may therefore be calculated as:

3% * 150 days * $ 10,000 per day = **$ 45,000 expenses**

Adjustment for non-serviceable equipment:

Of the 95% of equipment received on 15 December 2013, the two items costing $ 100 per item per day were received in a non-serviceable condition and therefore will not be paid for by the United Nations.

Note *– Physical inspection takes place in January 2014 and April 2014; for May and June 2014 no physical inspection of assets was made until August 2014, after the preparation date of the financial statements. In this case an estimate of the non-serviceability for these months should be made, either by use of a non-serviceability rate (see section 7.1.3.5) or by another reliable method of estimation. In this example, it has been assumed that the two items remain non-serviceable for the remainder of the mission.*

Expenses recognized above for the COA received on 15 December 2013 must therefore be reduced by the following amount:

2 items * 198 days * $ 100 per day = **$ 39,600 reduction in expenses**

The total expenses to be recognized for this COE in the year ended 30 June 2014 is therefore:

$ 1,881,000 + $ 45,000 - $ 39,600 = **$ 1,886,400**

The accounting entry to recognize these expenses is therefore:

Dr. COE expenses $ 1,886,400

Cr. Accrued charges $ 1,886,400

These expenses can be entered at the date of the inspections when COA is inspected; an accrual for the estimated inspection results for the last two months of the year can be entered at the year-end.

7.1.3.2 Contingent troop reimbursement expenses

Expenses for the contingent troop reimbursement should be recognized in the period in which the services provided by the troops were "delivered", which in this case may be determined by using the "troop strength analyses" provided by the troop contributing countries in question. These provide precise details of the average monthly deployment and are received in a very timely manner, therefore acting as a very good basis on which to recognize expenses.

Again, expenses should not be recognized at the point of raising the ULO, signing the MoU, or payment of the reimbursement, but instead during the period in which the services were delivered. An expense should therefore be recognized for the 40 troops provided by the country which had not signed the MoU until 28 June 2014, as the service had been "delivered" to the United Nations between 15 December 2013 and 30 June 2014.

Expenses for troops deployed on 15 December 2013:

The expenses for the troops may be calculated based on the daily rate of $ 1,028 and the number of days in the financial year in which the troops were deployed:

300 troops * $ 1,028 per month * 6.5 months = **$ 2,004,600**

Expenses for troops deployed on 31 March 2014:

The expenses for the troops may be calculated based on the daily rate of $ 1,028 and the number of days in the financial year in which the troops were deployed:

30 troops * $ 1,028 per month * 3 months = **$ 92,520**

The total expenses to be recognized for this contingent troop reimbursement in the year ended 30 June 2014 is therefore:

$ **2,004,600** + $ **92,520** = **$ 2,097,120**

The accounting entry to recognize these expenses is therefore:

Dr. Contingent troop reimbursement expenses	$ 2,097,120	
Cr. Accrued charges		$ 2,097,120

These expenses can be entered on a monthly basis on inspection of the "troop strength analyses".

***Note** – no changes to the expenses are required as a result of the troop rotation discussed in section 7.1.3.4 as the troops rotate on the same day.*

7.1.3.3 Painting expenses

Painting services should be recognized as expenses in the period in which the painting services were "delivered", and not when the ULO was raised or the services paid for.

Expenses for painting services

Painting services were delivered to the United Nations in December 2013 and therefore expenses should be recognized at this point. The accounting entries to recognize these expenses are as follows:

Dr. Equipment painting expenses	$ 20,000	
Cr. Accrued charges		$ 20,000

Upon payment of the invoice in March 2014, the following entry should be raised to recognize the payment:

Dr. Accrued charges	$ 20,000	
Cr. Cash		$ 20,000

7.1.3.4 Troop rotation expenses

The transportation services should be recognized as expenses in the period in which the services were "delivered", and not when the ULO was raised or the services paid for.

Expenses for transportation services for troop rotation

Transportation services were delivered to the United Nations in December 2013 and therefore expenses should be recognized at this point. The accounting entry to recognize these expenses is as follows:

Dr. Transportation expenses	$ 660,000	
Cr. Accrued charges		$ 660,000

The invoice was received and paid in the next financial year, therefore an accrued charge remains at the year-end.

7.1.3.5 Further COE expenses

Expenses for the use of the tanks should be recognized in the period in which the services were "delivered" in the financial year (i.e. from the start of the lease term to the year-end), and not when the ULO was raised or the services paid for. Expenses should not be recognized for the tank which was not deployed during the financial year, or for the tank which was deemed to be non-serviceable following inspection.

The results of the inspection may be used to inform the year-end accounting entries, as although the inspection was performed after the year-end, the results were known before the year-end and relate to a condition (i.e. the non-serviceability of the tank) present in the financial year; the conditions of the MoU had not been met by this tank and therefore no amount should be payable for the non-serviceable equipment.

Note *- If the results of the inspection had not been known at the date of the preparation of the accounts, an estimate of the non-serviceability of the equipment during the financial year should be made. This should be based on historic non-serviceability rates of equipment in a similar category if a reliable pattern is available.*

Expenses for tanks used as COE

Expenses should be recognized for the eight tanks used by the United Nations between 1 March 2014 and 30 June 2014 (122 days):

122 days * 8 tanks * $ 300 per day = **$ 292,800**

No expenses should be recognized for the tank which was delayed in a neighbouring country as the equipment had not formally been delivered to the United Nations in line with the MoU during the financial year. Equally, no expense should be recognized for the non-serviceable equipment.

The accounting entry to recognize these expenses is as follows:

Dr. COE expenses	$ 292,800	
Cr. Accrued charges		$ 292,800

The amount remained unpaid at the end of the financial year, therefore an accrued charge remains at the year-end.

7.1.3.6 ULO review and mission closure

No additional expenses should be recognized under IPSAS for the increase in the ULO to 60% of the total approved amount, as these changes in the budget did not change the timing of services "delivered" in the financial year.

Equally, no additional repatriation expenses will be recognised in the year ended 30 June 2014 for the closure of the mission in August 2014, as the closure of the mission did not change the timing of services "delivered" in the financial year.

7.1.3.7 Presentation and disclosure requirements

In the year-ended 30 June 2014, disclosures of the future payments for COE (treated as an operating lease) should be made under IPSAS in the notes to the financial statements (we refer to Corporate Guidance #1 Leasing for detailed requirements). This will include leasing commitments relating to future expenditure from 1 July 2014 to the closure of the mission in August 2014, thus the amounts disclosed may be low.

As an LOA for repatriation was also signed before year-end, the committed amount can also be included as an optional disclosure in the year-ended 30 June 2014; this is not however mandated under IPSAS.