

# THE ADOPTION OF REPLACEMENT COST IN THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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## Abstract

Fair value measurement is a complex and debated issue in public sector accounting. Often, this value has been determined in practice by the replacement-cost (RC) method, that is a measurement method not sufficiently investigated in recent times both in the private and public sector (Boer, 1966).

Criteria measurements aim to provide stakeholders with useful information. In the specific context of public sector financial reporting, financial data are crucial in order to establish fiscal policies, macroeconomic decisions and strategic operations (Capalbo & Sorrentino, 2013; Rodríguez Bolívar & Navarro Galera, 2016). Public sector entities pursue public interests and contextually should be oriented to optimize the use of available resources, to guarantee the groups of interests about the capability of the entity's administration (Christiaens, Vanhee, Manes-Rossi, Aversano, & Van Cauwenberge, 2015).

This implies that the aforementioned criteria have to be accurately analyzed by the accounting standard setters in order to satisfy the stakeholders' information needs, obviously taking into consideration the entities' mission and the contextualization of the generally recognized criteria usually applied and consolidated in the private for-profit sector. At the same time, it appears important to verify not only

the opportunity to require a specific criterion but also to examine its effective applicability and that the trade-off between information benefits and administrative burden is adequate (Bastable, 1977).

That said, the International Public Sector Accounting Standards (IPSASB), the most authoritative public sector accounting standard setter, has systemized the measurement bases by the publication of the Conceptual Framework (IPSASB, 2018), and recently has proposed a significant review of the measurement issues in the mentioned Conceptual Framework (IPSASB, 2021a; IPSASB, 2021b). In this view, the adoption of fair value accounting supports public administrations in illustrating their financial health, producing information on the “real” economic status of properties, intangible assets, financial instruments and other elements.

It is clear that fair value is a specific and conventional example of market values. One of the most significant difficulties of measuring elements by fair value in the public sector context is to achieve a reliable determination.

The proposed revision of IPSASB considers fair value, with “current operational value” and value in use, as a measurement criterion of the current value model.

The research aims to focus on the current application of fair value and, specifically, on the current adoption of the RC and the chance to find a more uniform technical definition of the RC, in the perspective that the IPSASB approach in relation to the RC appears sometimes contradictory.

Premised of this technical framework, the research is conducted on the investigation of the adoption of fair value for tangible assets exploring the current adoption of RC by the 74 governments examined in the International Public Sector Financial Accountability Index. The data are taken from the country-by-country data, accessing the last available financial reports included in the pertaining website page.

Conclusions will report some observations about future considerations on the approach and the orientation included in the Exposure Draft.

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