Financial Management and Audit
Act 2007

INSTRUCTIONS TO
MINISTRIES AND DEPARTMENTS

ACCRUAL ACCOUNTING

Issued by the Director of Finance and Economic Affairs
April 1, 2007
INSTRUCTIONS TO MINISTRIES AND DEPARTMENTS

ACCRUAL ACCOUNTING

INSTRUCTION 1

INTRODUCTION

1.1 These Financial Instructions are applicable to all Government Ministries and Departments who will now be preparing their accounts and reports on an accrual basis.

1.2 The Constitution of Barbados, the Financial Management and Audit Act and the Financial Regulations lay down the basic principles for the operation of the Consolidated Fund and the management and control of public moneys.

1.3 Under Section 19 of the Act, the Director of Finance and Economic Affairs is empowered to issue instructions in relation to public financial business for the efficient administration of the Government.

1.4 The duty of implementing the provisions of the Act, and any regulations and instructions issued thereunder, is the responsibility of each accounting officer designated under Section 18 of the Act.

1.5 It is necessary for all officers to whom any functions relating to finance may be delegated, to be made fully aware of the constitutional and legal framework within which the Government of Barbados functions, and of the regulations and instructions issued in order that their duties may be adequately performed in strict compliance therewith.

1.6 The Accountant General has authority to review these instructions periodically, incorporating, where applicable, circulars issued in keeping with the Financial Management practices of the Public Sector and to make recommendations to the Director of Finance and Economic Affairs for amendments.
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1.7 These instructions are therefore issued for the guidance of Public Officers, to provide a sound basis for proper financial administration.

1.8 Accounting officers must comply with the provisions of these instructions, non-compliance will lead to sanctions by the Director of Finance and Economic Affairs.

1.9 These Instructions supplement and do not replace the existing Instructions. Where however a conflict exist between a matter in these Instructions and that in any existing Instructions, these Instructions shall prevail.

GRANTLEY SMITH
Director of Finance and Economic Affairs
March 2007
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INSTRUCTION 2

DEFINITIONS

1) “Accrual Basis” The method of keeping accounts which shows all expenses incurred and income earned for a given period of time, even though such expenses and income may not actually have been paid or received in cash during the same period of time.

2) “Accrued Expense” An expense incurred, but not yet paid.

3) “Accrued Revenue” Revenue earned, but not yet collected.

4) “Accumulated Depreciation” An account in which estimated depreciation is accumulated over the service life of a capital asset.

5) “Accounts Payable” Obligations to pay for goods or services that have been acquired. Accounts Payable is a current liability in the Balance Sheet.

6) “Accounts Receivable” Amounts due to a department on account of goods and services rendered. Accounts Receivable is a current asset in the Balance Sheet.

7) “Amortization” Accounting or financial process of reducing an amount by periodic payments or write-downs. Refers to liquidation, writing off or extinguishing of a debt over a period of time.

8) “Bad Debts” Accounts receivable that are un-collectable used in accrual method accounting.

9) “Balance Sheet” Statement, at a particular point in time, of the financial position of an entity - divided into three parts: assets, liabilities and ownership (equity). Also known as Statement of Financial Position.
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10) "Bank Overdraft" Balance of a bank account when funds withdrawn exceed funds deposited.

11) “Bank Reconciliation” Analysis that accounts for the difference between the balance shown on the bank statement and the balance shown in the accounting records on a given date.

12) “Capital Asset” Assets, of either a tangible or intangible nature, owned or held by entities which are expected to be used or held over several fiscal periods. Capital assets policy requires that only items costing in excess of $3000 be shown as capital assets.

13) “Cash Basis” A method of accounting in which no transactions are entered for income until cash is actually received, and no entries are made for expenses until cash is actually paid.

14) “Current Asset” Unrestricted cash, or other asset that is expected to be converted into cash or consumed in the production of income within a year.

15) “Current Liability” Liability expected to be liquidated in a year.

16) “Department” means ministry and department.

17) “Depreciation” Accounting process of allocating in a systematic manner the cost or other basic value of a tangible, long-lived asset or group of assets over the useful life of the asset. See Amortization.

18) “Expenditure” Consumption of an asset or payment for an expense. Incurrence of a liability.

19) “Fair Market Value” The highest price available in an open and unrestricted market between informed, prudent parties, acting at arm’s length and under no compulsion to transact expressed in terms of money or money’s worth.
20) “Fixed Assets” See Capital Assets

21) “General Journal” Journal in which transactions are recorded for which specific journals are not provided (for example, adjustments and corrections).

22) “General Ledger” Ledger in which all the assets, liabilities, equity, revenue and expenses are posted and from which financial statements are prepared.


24) “Intangible Asset” An asset without physical substance that has value due to rights resulting from its ownership and possession (for example, goodwill, patents, trademarks).

25) “Inventory” Items of tangible property held for sale. An Inventory is a detailed list of items and their values owned at a specific point in time. Inventories may also be made of stationery and supplies held in stores for distribution within the department.

26) “Investment” Funds committed to acquire something tangible or intangible in order to receive a return, either in revenue or use.
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27) “Invoice”  Document for goods purchased or services rendered showing details such as quantities, prices, dates, shipping details, order numbers, terms of sale, etc.

28) “Journal”  A book of original entry in which financial transactions are recorded (for example, a purchase journal is a record of purchase transactions).

29) “Ledger”  A book of final entry containing all the accounts of a business or all the accounts of a particular type (for example, general ledger, accounts receivable ledger).

30) “Liability”  The Liabilities of a department are the debts of the department.

31) “Liquid Asset”  An asset, such as cash, that can be readily converted into other types of assets or used to buy goods and services or satisfy obligations.

32) “Liquidation Value”  The net amount realized on assets in the event of a liquidation

33) “Market Value”  The highest price that an owner could realize in an open market transaction. See Fair Market Value.

34) “Materiality”  A term used to describe the significance of financial statement information to decision makers. An item of information is material if it is probable that its omission or misstatement would influence or change a decision.

35) “Net Income”  Profit after all expenditures have been deducted from the revenue.
36) **“Net Worth”** Excess of total assets over total liabilities as reported in an entity's balance sheet.

37) **“Prepaid”** Asset created by payment for economic benefits that do not expire until a later time; as the benefit expires the asset becomes an expense (for example, prepaid rent, prepaid insurance)
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INSTRUCTION 3

SCOPE, AUTHORITY & GENERAL APPLICATION

3.1 BACKGROUND TO THESE INSTRUCTIONS

3.1.1 These Financial Instructions shall be applied by Ministries and Departments whose accounts are maintained on an accrual basis in the operation of all aspects of their financial arrangements.

3.1.2 These Instructions shall come into force on April 1, 2007.

3.2 UPDATING THESE INSTRUCTIONS

3.2.1 When an amendment is made to these Instructions, the Director of Finance and Economic Affairs will issue the amended pages of these Instructions under cover of a Ministry of Finance Circular.

3.3 SUPPLEMENTARY DOCUMENTS

3.3.1 Other documents that may be used to supplement these Instructions, includes::

Government of Barbados Accrual Accounting Manual;
Department procedural manuals.
Treasury Circulars; and
Reference documents.
3.3.2 Good practice guides will be issued by the Director of Finance and Economic Affairs from time to time. These are to provide guidance to Ministries/Departments on any aspect of their financial management.

3.3.3 There are a number of key documents which must be referred to as authority, these include:

- The Constitution of Barbados;
- The Financial Management and Audit Act (FMAA);
- The Financial Rules 1971

3.4 COMPLIANCE WITH INSTRUCTIONS

3.4.1 The accounting officers of Ministries/Departments must comply with the provisions of these Instructions. Any instances of non-compliance must be brought to the attention of the Director of Finance and Economic Affairs as soon as possible. In cases of doubt about compliance, the advice of the Director of Finance and Economic Affairs must be sought.

3.4.2 The accounting officer and all other accountable officers of Ministries/Departments must be familiar with, understand, and comply with these Instructions.

3.4.3 Ministries/Departments are required to comply with all Government of Barbados procedures and guidelines except where these Instructions provide otherwise or where specific approval is given by the Director of Finance and Economic Affairs for variation or deviation from these procedures.
3.5 FINANCIAL YEAR

3.5.1 The financial year for all Ministries/Departments will run from 1 April of one year to 31 March of the next year.

3.6 CAPITAL INVESTMENT

3.7.1 The acquisition of fixed assets must be financed from the budget of the Department by way of normal budgetary allocations.

3.7.2 Non voted funds such as deposit funds, trust funds, revolving funds etc. may be invested in accordance with the FMAA or any other governing legislation.

3.8 LOANS

3.8.1 Ministries/Departments must not borrow funds, receive loans or incur a bank overdraft unless specifically authorised by a resolution of Parliament.
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INSTRUCTION 4

ASSETS AND PROCUREMENT

4.1 ASSET OWNERSHIP

4.1.1 The assets under the day to day control of a department are assigned to that Department provided that they are owned by the Government of Barbados.

4.1.2 Land and buildings will not be assigned to the Department, except where the entity prior to the commencement of accounting on an accrual basis directly owned such assets and a relevant Act sanctions it.

4.1.3 The Ministry of Housing will retain ownership and control of Land and Buildings where the exception does not applies.

4.2 ASSET MANAGEMENT

4.2.1 The Permanent Secretary/Head of Department must establish appropriate systems and controls to ensure that the assets assigned to the Department are:

- properly controlled,
- used only for the purposes for which they were intended,
- maintained in good working order, and
- are held securely.
4.2.2 The Department must establish proper procedures for the disposal of assets. These procedures must comply with established policies and must provide for:

- the proper documentation of all disposals;
- the disposal of any asset by private treaty only if an auction or tender fails to reach the reserve price; and if specifically approved by the Director of Finance;
- the maintenance of the fixed assets register and inventory to reflect all disposals; and
- a requirement that all disposals are approved by the Director of Finance and Economic Affairs.

4.2.3 When an asset is disposed of in accordance with these procedures, the proceeds shall be paid to the Accountant General and recorded as a credit to the Consolidated Fund.

4.3 PROCUREMENT

4.3.1 The accounting officer at a Ministry/Department must comply with the GOB purchasing policies and procedures for the procurement of all goods, services and construction work; in doing so they must comply with the requirements set out in the FMAA and Supplies Rules.
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INSTRUCTION 5

CASH AND BANK

5.1 CASH REQUIREMENT

Cash flow profile

5.1.1 The accounting officer at the Ministry/Department shall receive an allocation to meet its requirements as agreed in its budget and set out in its quarterly cash reports depending on available financial resources. It is the responsibility of the Department to prepare an accurate profile of cash flow to ensure that payments can be met from income or appropriated funds.

5.2 BANK ACCOUNT

“Overdraft” facilities

5.2.1 Under no circumstances whatsoever must a department cause an overdraft to occur on any bank account operated without the prior and written approval of the Director of Finance and Economic Affairs.

Conditions of contract

4.3.2 In making contracts, the accounting officer of the Ministry/Department must comply with the standard conditions of Government contracts for supplies as notified by the Director of Finance and Economic Affairs from time to time.

Documenting actions

4.3.3 All actions taken to procure any good or service shall be fully documented. This may be reviewed by the Auditor General, the Accountant General and/or the Chief Supply Officer.
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5.2.2 The Department subject to the written approval of The Director of Finance may have the following bank accounts:

- deposit bank account for holding funds received for special purposes;
- Trust Fund account for holding funds being administering by virtue of some special law;
- Any other bank accounts established with the prior written approval of the Director of Finance.

5.2.3 Departments must pay all monies collected on behalf of Government, into the Treasury account on a timely basis.

5.2.4 All operating charges relating to a Crown bank account (e.g. cost of cheque books, stamp duty, ledger fees etc.) should be met from the funds appropriated for such purposes.
6.1 ADHERENCE TO ACCOUNTING STANDARDS

6.1.1 In general the annual financial statements published by the Accountant General under accrual accounting must be in accordance with the Financial Management and Audit Act. The FMAA is based on the International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS) issued by the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IPSASB) respectively.

6.1.2 There are a number of areas where the IPSAS is not appropriate. In those areas departure from IPSAS is acceptable where it is permitted by the Director of Finance and Economic Affairs.

6.2 ACCOUNTING CONCEPTS

6.2.1 The financial statements produced by the public sector must be based on the various accounting concepts set out in this section.

6.2.2 Financial statements must be prepared on the assumption that the entity is a going concern, that is, that the activity of the entity will continue in the foreseeable future and that there is no intention or necessity to curtail it significantly.
Accrual Concept

6.2.3 Financial statements must be prepared on an accrual which requires that income and expenditure be:

- accrued (that is, recognised when they are earned or incurred);
- matched (that is, expenditure is matched with the income it has helped to generate).

6.2.4 Accrued means that transactions and events are recognised when they occur and they are recorded in the accounting records and reported in the financial statements of the period to which they relate, for example when an item to be purchased has been delivered, and not when there is an actual transfer of cash, that is when the invoice is actually paid.

6.2.5 Matching means that if money is spent on an item then that cost should be spread over the period in which it helps generate income, deliver services, or produce goods.

For example, a computer is likely to last a few years and will provide economic benefit over that period of its useful life. The cost of that computer should be spread over the period of its useful life; this cost is called “depreciation” and is different to the treatment under cash accounting where the full cost is charged when cash is handed over regardless of when the item was purchased.

Consistency

6.2.6 Financial statements must be prepared on a consistent basis, that is, similar items should be treated similarly within a single period and also from one period to the next.
6.2.7 This means that if a computer is treated as a fixed asset and is to be depreciated a similar computer should be treated in the same way. It is not acceptable to treat similar items in different ways, as this would make understanding the financial statements difficult.

6.2.8 In addition, if a certain accounting treatment has been adopted this year then it must be adopted next year. For example, it would be inconsistent if stock were to be valued based on one method this year and a different method next year. If a different treatment is adopted, comparisons across years would be undermined. It is acceptable to change accounting policies but only if the change will result in a more appropriate presentation of events or transactions or the change is required to comply with IPSAS 3 “Changes in accounting policies” and the impact on the financial statements is clearly identified.

**Prudence**

6.2.9 Wherever there is uncertainty, such that judgement has to be used, in preparing financial statements a degree of caution must be used. In general this means that assets must not be overstated and liabilities must not be understated.

6.2.10 Prudence requires that preparers of financial statements do not take an unreasonably optimistic view of events, as that might be misleading. Prudence demands that financial statements be prepared making realistic judgements but that where there are two equally likely courses it should be assumed that the less favourable one will happen.

**Materiality**

6.2.11 An item is material if it is of sufficient size as to influence the opinion of a reader of the financial statements. Similarly, the misstatement or omission of an item would be a material error if the reader of the financial statements would have reached a different opinion on the
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accounts had the error been corrected. When preparing financial statements, materiality must be considered in terms of which items need to be disclosed and what margin of error would be tolerable in valuing a particular item in the statements. Referral in such cases should be made to the Accountant General.

6.2.12 Financial statements should be prepared so as to reflect the economic substance and financial reality of transactions rather than only their formal legal character.

6.2.13 Whenever there is a conflict between accruals and prudence it is prudence which takes precedence.

For example, if there is some doubt about whether a debt which is due at the balance sheet date will be paid, the accrual concept would mean that the income is reflected in this year’s statements. However, as there is doubt, prudence would suggest that the debt should be provided for and so not be counted as income this year, although it may be counted next year if the debt is paid. In this case, prudence would determine the correct accounting treatment.
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INSTRUCTION 7
ACCOUNTING POLICIES

7.1 INTRODUCTION

Following prescribed policies
7.1.1 The policies set out in this section must be followed by a Department in accounting for its transactions except where:
   - a particular policy or policies is or are irrelevant; or
   - to do so would result in those statements not giving a true and fair view.

7.2 PROPERTY, PLANT AND EQUIPMENT

Application of IPSAS 17
7.2.1 IPSAS 17 “Accounting for Plant, Property and Equipment” shall apply to all fixed assets.

7.2.2 Land and buildings must not be assigned to ministries/Department.

Definition of a Plant Property and Equipment
7.2.3 Plant, Property and Equipment are tangible assets that:
   - are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes;
   - are expected to be used during more than one reporting period.

Capitalisation of expenditure
7.2.4 All expenditure on the acquisition, creation, or enhancement of property, plant and equipment must be capitalised.
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De minimis expenditure limits

7.2.5 Expenditure of $3,000 or more on any one item or on several items of the same type bought at the same time must be capitalised.

Maintenance work

7.2.6 Routine maintenance work must not be capitalised.

Asset categories

7.2.7 In analysing fixed assets in the financial statements the following categories must be used:

- 750……………..land;
- 751……………..plant and property;
- 752……………..machinery, and equipment;
- 753……………..furniture and fixtures;
- 754……………..leasehold improvements;
- 755……………..computer software
- 756……………..motor vehicles;
- 785……………..assets under construction.
7.2.8 All items which have been capitalised must be recorded in a fixed assets register which must be maintained by each Department in either a computerised (Fixed Asset SmartStream module) or manual format. This register must show the following:

- Item and description;
- fixed asset category;
- date of purchase;
- cost;
- depreciation (Appendix 2);
- expenditure on enhancement (and date of such expenditure);
- net book value; and
- reference/serial number.
- location

7.2.9 Where such assets are wholly or partly funded by an external donor with no loan attached then there must be a corresponding credit to the Donated Assets Reserve.

7.2.10 Provision for depreciation of an asset must be made in the financial year of acquisition based on the half year rule which states that “for tangible assets half a year’s depreciation is accrued in the year of acquisition and a similar half year’s depreciation in the year of disposal”.
7.2.11 The value at which property, plant and equipment are included in the balance sheet should be reviewed periodically and where an asset’s value has changed materially the valuation should be adjusted accordingly.

7.2.12 When an item of plant, property and equipment is re-valued, the entire class of property plant and equipment to which that asset belong must be re-valued.

- A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity’s operation. Such revaluations will be in accordance with an established policy and approved by the Accountant General.

7.3 NET SURPLUS OR DEFICIT FOR THE PERIOD, FUNDAMENTAL ERRORS AND CHANGES IN ACCOUNTING POLICIES

7.3.1 The part of IPSAS 3 that relates to extraordinary items applies to the financial statements of the Crown but does not apply to the Appropriation accounts of Departments.

7.3.2 IPSAS 3 defines extraordinary items as:

“.....those items which arise from events or transactions that are clearly distinct from the ordinary activities of the entity and therefore are not expected to recur frequently or regularly and are outside the control or influence of the entity....”.
7.3.3 IPSAS 3 defines ordinary activities as:

“….any activities which are undertaken by an entity as part of its service delivery or trading activities in which the entity engages in furtherance of, incidental to, or arising from these activities…..”

7.3.4 Department are creatures of law, they may not take any action, or engage in any activity, which is outside of their legal mandate. Any actions that were outside of their mandate would be ultra-vires. As such anything which is within their powers would be considered to be part of their “ordinary activities” and so, by definition, as long as a department is acting lawfully it would never need to account for an item which is “extraordinary”. However, if for any reasons an extraordinary item is identified then full disclosure of the nature and amount of each item may be made on the face of the income statement or if disclosure is made in the notes to the financial statement then the total amount of all extraordinary items is disclosed on the face of the income statement.

7.3.5 Exceptional items are defined as:

“Material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.”

7.3.6 All exceptional items should be credited or charged to the income and expenditure statement by inclusion under the appropriate headings to which they relate.
7.3.7 The amount of each exceptional item, either individually or as an aggregate of items of a similar type, should be disclosed separately by way of note; or on the face of the income and expenditure statement if that degree of prominence is necessary in order to give a true and fair view. They should not be aggregated on the face of the profit and loss account under one heading of exceptional items but, rather, each should be included within its natural heading and separately disclosed.

7.3.8 An adequate description of each exceptional item should be given to enable its nature to be understood.

7.3.9 The part of IPSAS 3 that relates to fundamental errors and changes in accounting policies does not apply to the financial statements of Ministries/Departments.

7.3.10 IPSAS 3 defines fundamental errors as:

“…..those errors discovered in current period that are of such significance that the financial statements of one or more prior years can no longer be considered to have been reliable at the date of their issue.”
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7.3.11 Adjustments for fundamental errors will be reflected in the balance of the Consolidated Fund in accordance with IPSAS 3 (Fundamental Errors)

IPSAS3 states “The amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of accumulated surpluses or deficits. Comparative information should be restated, unless it is impracticable to do so.”

7.4 INVENTORIES

7.4.1 Inventories (or stocks) will be valued at the lower of cost and net realisable value. Net realisable value is the actual or estimated net income that could be generated by selling an item of stock. Net realisable value is likely to be relevant in instances of:

- physical deterioration of stock;
- stock obsolescence; or
- errors in purchasing such that stock has little or no value.

7.4.2 The historic cost of inventories should be accounted for using either the first-in-first-out (FIFO) method or the weighted average cost method.

7.4.3 Permanent Secretaries/Heads of Departments are required to establish systems of control to ensure that:

- regular inventory checks are held;
- inventory holdings are reasonable and that they do not become excessive;
- proper records are maintained of inventory holdings; and
- inventories are kept in appropriate conditions to prevent their theft or deterioration.
7.5 DEVELOPMENT EXPENDITURE

Application of IFRS

7.5.1 Care must be exercised in seeking to capitalise development expenditure. A note in the financial statements for development expenditure capitalised will suffice.

Criteria for capitalisation

7.5.2 An intangible asset arising from development expenditure should only be capitalised if and only if it meets the following criteria:

- there is a clearly defined project;
- it will generate probable future economic benefits;
- the related expenditure is separately measurable and identifiable;
- the outcome of the project has been assessed with reasonable certainty as to:
  - its technical feasibility; and
  - a product or service that will eventually be brought into use or sold; and
- adequate technical, financial and other resources exist, or are reasonably expected to exist, to complete the project.

For example, if a Department were developing its own computer system it might be reasonable to capitalise that expenditure in the financial statements.
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**Failure to meet criteria**

7.5.3 If any expenditure relates to a project which fails to meet any of the criteria set out above, it must be recognised as research expenditure and written off in the year it is incurred and must not be capitalised.

**7.6 CONTINGENCIES**

**Application of IPSAS 19**


**Definition of contingencies**

7.6.2 A contingency is a possible asset or liability that arises from past events and whose ultimate outcome will be confirmed only on the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the enterprise.

**Treatment of contingent assets**

7.6.3 Contingent assets should not be accrued in the financial statements as to do so would be contrary to the concept of prudence. Where the inflow of an economic benefit is probable it should be disclosed by way of a note. However, when the gain is virtually certain then it is no longer a contingency and so should be accrued.

**Treatment of contingent liabilities**

7.6.4 Contingent liabilities should only be accrued when it is probable, that is, more likely than not, that there will be a loss to the Department. If the event is not probable, but the chances are greater than remote that it will occur (or not occur) then the amount should not be accrued but should be disclosed by way of a note.
7.7 EVENTS AFTER THE BALANCE SHEET DATE

**Application of IPSAS 14**

7.7.1 IPSAS 14 “Events after the Balance Sheet Date” applies to the financial statements of Ministries/Departments.

**Definition of Events after the balance sheet date**

7.7.2 IPSAS 14 defines events after the balance sheet date as:

“those events, both favourable and unfavourable, that occur between the balance sheet date and the date on when the financial statements are authorised for issue.”

**Conditions at balance sheet date**

7.7.3 If the event provides further evidence of a condition that existed at the balance sheet date the accounts should be adjusted.

**Conditions arising after balance sheet date**

7.7.4 If the event relates to conditions arising after the balance sheet date the financial statements should not be adjusted unless:

a) the event is of such significance that non disclosure would affect the ability of the users to make proper evaluations and decisions, and

b) it is likely to change the opinion of a reader of the accounts;

then, it should be disclosed by way of a note to the accounts as to:

i. the nature of the event; and

ii. an estimate of its financial effect, or a statement that such an estimate cannot be made.
7.8 FOREIGN CURRENCY TRANSACTIONS

Applicability of IPSAS 4

7.8.1 IPSAS 4 “Accounting for the effect of changes in foreign exchange rates” applies to the foreign currency transactions of departments and the financial statements of the Crown.

Currency for financial statements

7.8.2 The Financial Statements must be prepared in Barbados Dollars. In IPSAS 4 this is referred to as “the reporting currency”.

Exchange rate for income and expenditure items

7.8.3 Income or expenditure items should be translated from the foreign currency to Barbados Dollars at the prevailing exchange rate on the day the transaction occurred, except that where the transaction is to be settled at a contracted rate, that rate should be used.

Monetary items

7.8.4 At the balance sheet date foreign currency monetary items resulting from unsettled transactions (for example debtors and creditors) should be translated using the closing rate on the balance sheet date, except where there is a contracted rate in which case that rate should be used.

Gains and losses

7.8.5 Any gains and losses arising from the effect of changes in foreign currency rates should be taken to the income and expenditure account. Gains and Losses from foreign exchange transactions negotiated by the Treasury will be carried by the Treasury Departments (e.g. those relating to debt management, investments, foreign missions)
7.9 CREDITORS

7.9.1 There are three types of creditors:

- trade creditors, sundry creditors and loans – generally contractual obligations to transfer known amounts;
- accrued expenses – obligations to pay for goods and services that have been received but which have not been invoiced and
- deferred income – an obligation to transfer economic benefits by providing goods or services for which payment has been received in advance.

7.9.2 Creditors must be analysed between those amounts falling due within one year and those falling due after more than one year. The former should be shown as current liabilities in the balance sheet and the latter as long term liabilities.

7.9.3 Creditors must be shown at contractually agreed amounts or, where the sums are not available, at realistic and prudent estimates of the amounts to be paid.
7.10 PROVISIONS

7.10.1 Provisions are a subclass of liabilities and not a separate element of the balance sheet. IPSAS 19 defines a provision as “Liabilities in respect of which the amount or timing of the expenditure that will be undertaken is uncertain”. Provisions can be distinguished from other liabilities such as trade creditors and accruals. The distinguishing feature for provisions is that there is uncertainty over either the timing or amount of the future expenditure.

7.10.2 The amount recognised as a provision should be a realistic and prudent estimate of the expenditure required to settle the obligation that existed at the balance sheet date.

Accounting treatment

7.10.3 Provisions should be charged immediately to the income and expenditure statement. Expenditure incurred to settle the obligation should be debited direct to the provision. Provisions must only be used for the purpose for which they were established.

Provisions no longer required

7.10.4 A provision that is no longer required should be credited to the income and expenditure account.

7.11 COMMITMENTS

Definition of a commitment

7.11.1 A commitment is an obligation to make a payment at some future date for which provision has not been made in the accounts. Commitments relate to expenditure to be incurred on contracts which have been entered into at the balance sheet date and where there are unperformed obligations.
7.11.2 Capital commitments should be disclosed by way of a note to the balance sheet. The value of the commitment should be the amount of capital expenditure contracted for or approved to the extent that it has not been provided for in the accounts.

For example, where, at the balance sheet date, a Department has placed an order for an elevator which has been shipped but has not yet been received, since this item would have been shipped f.o.b (freight on board) which means that the ownership and related liabilities lie with the buyer on shipment, this amount should be disclosed by way of a note to the financial statements.

7.11.3 Other commitments should only be shown when they are:

- significant in terms of their value;
- non cancellable (or only cancellable at significant cost); and
- not related to the routine business of the Department.

For example, commitments relating to road construction and non-capital professional services.

7.12 RESERVES

7.12.1 The following two reserves should be established by the Accountant General

- Revaluation Reserve; and
- Donated Asset Reserve
7.12.2 The Revaluation Reserve reflects the unrealised increase in the net value of the Balance Sheet. Where an asset is revalued the accounting entries must be:

- debit the asset account by the amount of the revaluation; and
- credit the Revaluation Reserve by the same amount.

7.12.3 Any downward revaluation of a fixed asset must be reflected first by reversing the above entry insofar as the particular assets has been revalued; any further downward revaluation would need to be shown as a charge to the income and expenditure account.

7.12.4 The Donated Asset Reserve reflects the net book value of assets which have been donated to Ministries/Departments by an external funding agency). Donated assets must be treated in the same way as purchased assets except that:

- the Donated Asset Reserve is credited with the value of the original donation and with any subsequent revaluations;
- each year an amount equal to the depreciation charge is transferred from the Donated Asset Reserve to the operating cost statement; and
- on disposal of an asset:
  - the profit or loss is charged to the operating cost statement;
  - an equal amount is transferred from/to the Donated Asset Reserve to/from the operating cost statement so that there is a net nil effect on the operating cost statement; and
  - the balance on the Donated Asset Reserve in respect of the disposed asset is transferred to the Consolidated Fund.
Donated Asset Reserve

7.12.5 Where an asset is partially funded only that part which is so funded should be treated in accordance with Instruction 7.13.4.

7.13 LEASES

Application of IPSAS 13

7.13.1 IPSAS 13 “Accounting for leases” applies to the financial statements of Ministries/Departments.

Finance lease Application of IPSAS 13

7.13.2 A finance lease is one that transfers substantially all the risks and rewards of ownership of an asset to the lessee. A finance lease must be reflected in the balance sheet by recording an asset (that is the asset which is being leased) and a liability reflecting the future stream of lease charges. In the income and expenditure statement there will be charges for both depreciation of the asset and the finance charges.

Operating leases

7.13.3 An operating lease is a lease other than a finance lease. This will include service based contracts where the Department pays for a stream of services where the amount paid relates directly to the services consumed and where the other partner controls the asset and carries the risks and rewards of ownership.
7.13.4 An operating lease must not be reflected in the balance sheet; instead the lease charges should be charged directly and fully to the income and expenditure account.

For example, if a Department was to lease part of a building and it did not have to meet the cost of major maintenance it is likely that such a lease is an operating lease.

7.13.5 Lease accounting is a difficult area that is continually developing. Permanent Secretaries/Heads of Departments should seek the advice of the Accountant General on the accounting and recording of all leases.

7.14 DEBTORS

Definition of Debtors

7.14.1 The item “Debtors” in the balance sheet includes amounts receivable as at the balance sheet date no matter when they fall due for payment.

Transactions giving rise to debtors

7.14.2 For most Ministries/Departments goods and services sold to the public will be paid for on cash on delivery basis so no debtor would arise. A debtor will arise where a good or service is provided for and an invoice is raised for payment.

Staff advances Transactions giving rise to debtors

7.14.3 The outstanding balance on all staff advances must be included in the value of debtors shown in the balance sheet. A note to the balance sheet should analyse the debtors figure and should show separately the value of staff advances.
7.14.4 Debtors must be stated at their net realizable value after allowance for bad and doubtful debts. The allowance for bad and doubtful debts should be a prudent estimate of the value of debts which are not likely to be collected. The allowance should be the sum of:

- an allowance for specific debts which are not likely to be collected because of their age, nature, or the debtor involved.

- a general allowance based on a proportion of debts outstanding - the proportion being estimated by management based on previous experience and future expectations.
8.1 MONTHLY REPORTING

8.1.1 On a monthly basis the accounting officer should report on the performance of the department against

- the business plan;
- budget (recurrent, capital, and revenue);
- key performance indicators and targets (those which can be measured monthly); and
- internal operational performance targets.

8.1.2 The accounting officer may establish whatever procedures for internal reporting that they think fit. They shall be guided by relevant legislations and any relevant good practice guides issued by the Accountant General.

8.2 QUARTERLY PERFORMANCE REPORT

8.2.1 At the end of each quarter the accounting officer will produce a report which summarises the performance of the Ministry up to the end of that quarter and projections of future performance. The report shall be known as “the Quarterly Performance Report”.

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Contents of the Report

8.2.2 The Quarterly Performance Report shall include:

- actual performance for all Key Performance Indicators measured against the targets for the quarter and the year to date, together with full year projections measured against the annual targets;
- a brief report on the key performance issues, progress, and current topics of note;
- summary revenue and expenditure statements against budget and prior year and variance for the quarter and full year projections;
- a statement of projected cash flows for each quarter;
- summary capital expenditure statement against budget and variance, for the quarter and full year projections;
- such other information which the Permanent Secretary/Head of Department considers significant or helpful in aiding the understanding of readers of the report.

Submission of the report

8.2.3 The report must be submitted by the accounting officer, not later than one month after the end of the appropriate quarter, to the Portfolio Minister. Copies will also be sent to:

- Director of Finance and Economic Affairs and
- The Accountant-General.
8.3 QUARTERLY CASH REPORT

8.3.1 Monitoring cash flow monthly
Not later than fifteen (15) days before the start of a quarter, the accounting officer must produce a report which summarises the projected cash requirements of the Ministry for the quarter and must submit the report to the Ministry of Finance along with the Request for Quarterly Allocations. A copy of this report should also be sent to the Accountant General.

8.3.2 Contents of the Quarterly Cash Report
The Quarterly Cash Report must show:
- Cash flow projections by month for the quarter and cash requirements, analysed between recurrent and capital;
- total cash and bank balances held at the date the report is prepared, analysed by account; and
- total recurrent and total capital cumulative cash expenditure, accruals, prepayments, commitments, earmarked funds, cumulative warrant allocation, and balance on warrant, all compared to budget.

8.3.3 Format of the report
The Director of Finance and Economic Affairs may specify the format in which the report is to be submitted.
8.4  ANNUAL REPORTS AND ACCOUNTS

8.4.1 In respect of each financial year, and within a period of four (4) months after the end of such financial year, the accounting officer of a Ministry/Department must prepare an annual report relating to the Ministry/Department and transmit them to:

- the Director of Finance and Economic Affairs,
- the Accountant General, and
- the Auditor-General.

8.4.2 The accounting officer’s annual report may be in such form as he/she may determine but must include:

- a commentary on the Department’s overall performance for the year, including performance measured by the key performance indicators and a comparison of actual achievements with those forecast in the business plan;

- a summary of the level of activity undertaken by the Department during the year;

- details of significant developments which are likely to affect the Department’s performance in subsequent years, in particular any initiatives to improve quality, value for money, customer satisfaction, and income generation.
8.5 FINANCIAL STATEMENTS

8.5.1 Presentation of the financial statements

Permanent Secretary/Head of Departments must ensure that their appropriation accounts:

- give a true and fair view of the Department’s income and expenditure for the financial year;
- have been prepared on the basis of accounting set out in these Instructions;
- comply with the accounting policies set out in these Instructions; and
- are in the format prescribed by these Instructions.

8.5.2 True and fair view over-ride

Wherever there is any conflict between the requirements given above, the first requirement shall take precedence, (i.e. the primary requirement of the financial statements is that they give a true and fair view of the operations).
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Content of the financial statements

8.5.3 The annual financial statements of the Crown must include:

- an income and expenditure statement for the financial year;
- a balance sheet showing the financial position at the end of the financial year;
- a statement of cash flows for the year;
- details of the accounting policies applied in preparing the financial statements;
- such other notes as the Director of Finance, the Accountant General and the Auditor General consider helpful to readers of the statements; and
- the Auditor-General’s certificate issued in accordance with the FMAA Sec 36 (2c)

Comparative figures

8.5.4 With the exception of the financial statements of a department’s first financial year under accrual accounting, the financial statements should show corresponding figures for the preceding period.

NOTES TO THE FINANCIAL STATEMENTS

Additional information to be included

8.6.1 The statements must include such additional information as necessary to ensure that the statements comply with Section 22 of the Financial Management and Audit Act 2007.
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INSTRUCTION 9

AUDIT AND CONTROL

9.1  INTERNAL AUDIT

9.1.1  Each Permanent Secretary/Head of Department must establish an effective and adequate internal audit function within the Department. Where the size of the department cannot adequately meet this requirement, assistance should be sought from the Accountant General.

- The structure of the internal audit function and the arrangements to ensure its effectiveness are to be determined by the Permanent Secretary/Head of Department.

9.1.2  The Internal Auditor must report directly to the Permanent Secretary/Head of Department.

9.1.3  A copy of each report issued by the Internal Auditor shall be submitted to the Director of Finance as soon after the report is issued as is practicable.
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9.1.4 The Internal Auditor may undertake a special investigation of any matter coming to his/her attention which he considers to be significant, important, and relevant to the finances of the Department although such investigation may not have been included in his/her operational plan.

9.1.5 At the end of each quarter the Internal Auditor must prepare a report summarising the activities undertaken by the Internal Audit function during the quarter together with a summary of all significant findings and recommendations. The Internal Auditor shall submit this quarterly report to the Permanent Secretary/Head of Department.

9.1.6 Reports prepared under 9.1.5 should be submitted by the accounting officer to the Director of Finance and the Accountant General no later than the 30th of the month following the quarter for which the report relates.

9.1.7 The Auditor-General will be given access to all files, working papers, reports, and plans, whether held physically or electronically, for the purpose of completing his/her audit or for reviewing the effectiveness of internal audit.

9.1.8 The Chief Internal Auditor shall:

- review and report upon the operation of all financial and other systems operating in the Department, in particular he/she should consider and comment on the effectiveness of any controls contained in those systems making appropriate recommendations;
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- investigate and report to the Permanent Secretary/Head of Department upon any instances of alleged misappropriation or fraud which come to his/her attention by whatever means;
- review the arrangements made by the Permanent Secretary/Head of Department to secure value for money in the use of resources by the Department;
- prepare quarterly reports and submit them in accordance with Instruction 1.2.5; and
- carry out such other investigations as the Permanent Secretary/Head of Department may from time to time require.

9.2 INTERNAL CONTROLS

The internal control system is the whole system of controls, financial and otherwise, established by the management of the Department in order to undertake its business in an orderly and efficient manner, ensure adherence to management policies, ensure transparency and accountability, safeguard assets, and secure as far as possible the completeness and accuracy of records.
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9.2.2 Scope of internal control

The system of internal control will embrace:

- financial and operational control systems and procedures, including, amongst other controls, physical safeguard of assets, segregation of duties, authorisation and approval arrangements, and information systems;

- management control including setting objectives and plans, monitoring financial and non-financial performance indicators, anticipating changing circumstances, and correcting poor performance;

- internal audit review, undertaken by staff independent of the functions it reviews, to ensure objectivity,

9.2.3 Responsibility for internal control

It is the responsibility of the Permanent Secretary/Head of Department to ensure that there is an effective and comprehensive system of internal control in the Department.

9.2.4 Statement on internal control

In the interests of public accountability, the Permanent Secretary should include a statement in the Annual Appropriation Account of the Department on internal control, but need not comment on its effectiveness. The statement should:

- acknowledge the responsibilities of management for the system of internal control;

- describe the limitations of any system of internal control;

- describe the key procedures designed to provide effective internal control; and

- confirm that the senior management have reviewed the effectiveness of the system of internal control (the Permanent Secretary/Head of Department need not comment on the outcome of that review).
### Appendix 1

A1. Relevance of statements of International Public Sector Accounting Standards (IPSAS) to Ministries and Departments

<table>
<thead>
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<td>6</td>
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<tr>
<td>Textile and Leather - Above Average</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Textile and Leather - Average</td>
<td>5</td>
<td>20%</td>
</tr>
<tr>
<td>Textile and Leather - Standard</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>Vehicle - Heavy Duty</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Vehicle - Luxury (judges)</td>
<td>3</td>
<td>33%</td>
</tr>
<tr>
<td>Vehicle - Standard</td>
<td>7</td>
<td>14%</td>
</tr>
<tr>
<td>Workshop Equipment - Above Average</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Workshop Equipment - Average</td>
<td>5</td>
<td>20%</td>
</tr>
<tr>
<td>Workshop Equipment - Standard</td>
<td>3</td>
<td>33%</td>
</tr>
</tbody>
</table>