OFFICE OF THE ACCOUNTANT-GENERAL OF THE FEDERATION
TREASURY HOUSE, ABUJA

FEDERAL MINISTRY OF FINANCE

SIGNIFICANT ACCOUNTING POLICIES
FEDERAL GOVERNMENT OF NIGERIA
(IPSAS ACCRUAL BASIS OF ACCOUNTING)

For use by Public Sector Entities

DECEMBER, 2021

Introduction

In line with the adoption of the IPSAS in Nigeria, a standardised format of General Purpose Financial Statements (GPFS) have been designed and introduced for use by all Federal Government of Nigeria (FGN) Public Sector Entities (PSE).

In order to ensure an effective and efficient harmonization of GPFS prepared and presented by PSE, Accounting Policies for Accrual Accounting have been developed as a set of guidelines to direct the Processes and Procedures relating to financial reporting in Nigeria.

The Accounting Policies have been developed to address the following fundamental accounting issues:

i. Recognition of Elements of Financial Statements,
ii. Measurement of Elements of Financial Statements,
iii. Accounting Treatment of Elements of Financial Statements; and
iv. Disclosures

The Accounting Policies shall be subject to periodic review and update as deemed necessary by the relevant Authorities.

Note:
These accounting policies form part of the Notes to the GPFS and should be presented after the statement of compliance with IPSAS.

S/N	Accounting Policies
I.	**Measurement Basis** These GPFS have been prepared under the historical cost convention (as modified by revaluation or fair value of certain assets and liabilities where applicable).
II.	The extent to which an entity has applied transitional provisions in any IPSAS as may be directed by Governments.
III.	Other Accounting Policies
1	**Basis of Accounting** These GPFS have been prepared under Accrual Basis of Accounting.
2	**Accounting Period** The accounting year (fiscal year) shall be from 1st January to 31st December in line with the National Treasury Circular Ref. **OAGF/CAD/026/V.1/102 of 30th December, 2013.** Each accounting year is divided into 12 calendar months (periods) and shall be set up as such in the accounting system.
3	**Reporting Currency** The GPFS shall be prepared in the Nigerian Naira (₦).
4	**Consolidation Policy (applicable to controlling entities)** i. All MDA of the Government shall be consolidated except Commercial Public Sector Entities (CPSE). ii. Consolidation of the GPFS shall be in agreement with the provisions of all the relevant legal requirements. iii. Controlled entities are fully consolidated from the date in which control is transferred to the Public Entity. They are de-consolidated from the date that control ceases. iv. Controlling Entity with interest in a CPSE should account for such by presenting it as an Investment, recognizing the Net assets of the Investee Entity in the Statement of Financial Position.
5	**Comparative Information** The General Purpose Financial Statements shall disclose all numerical information relating to previous period.

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6	**Budget Figures** These are figures from the approved budget in accordance with the Appropriation Act prepared on Cash Basis.
7	**Revenue:** **Fees, taxes and fines** a. Revenue from non-exchange transactions such as fees, taxes and fines should be recognized when the event (*specify event*) occurs and the asset recognition criteria are met. b. Other non exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Entity and the fair value of the asset can be measured reliably. **Other operating revenues** a. Other operating revenues arise from exchange transactions in the ordinary course of the Entity's activities. b. Revenues comprise the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of an Entity's activities. c. Revenue is shown net of tax, returns, rebates and discounts. **Sales of Goods** Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually when goods are delivered. **Other Revenue / Income** a. Other revenue/income consists of fees, fines, debt forgiveness, commissions, rentals, gains on disposal of assets, etc. b. Any gain on disposal is recognized at the date the control of the asset is passed to the buyer and is determined after deducting from the proceeds the carrying value of the asset at that time.
8	**Aid and Grants:** a. Aid and Grants to an Entity is recognised as income on entitlement, while aid and grants to other governments/agencies are recognised as expenditure on commitment.

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	b. Grant should be recognised as either in kind (assets, goods or service) or Cash c. Assets related grant for which conditions are fully met should be recognised systematically as income in the GPFS to compensate the cost of the Asset (depreciation) it is intended to represent by applying deferred Income method.
9	**Subsidies, Donations and Endowments** Subsidies, Donations and Endowments to an Entity are recognised as income when money is received, or entitlement to receive money is established; except where fulfilment of any restrictions attached to these monies is not probable.
10	**Transfers from other government entities** Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on receipt of the asset (cash, goods, services and property) if it is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.
11	**Expenses** All expenses should be reported on an accrual basis, i.e. all expenses are to be recognised in the period they are incurred or when the related services are enjoyed, irrespective of when the payment is made.
12	**Employee Benefits/Pension obligations:** **Under the Defined Benefits Scheme:** **a.** Provision should be made, where applicable, using an actuarial valuation for retirement gratuities. The actuarial valuation determines the extent of anticipated entitlements payable under employment contracts and brings to account a liability using the present value measurement basis, which discounts expected future cash outflows. **b.** To the extent that it is anticipated that the liability will arise during the following year the entitlements are recorded as Current Liabilities. The remainder of the anticipated entitlements are recorded as Non-Current Liabilities.

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	Under the Defined Contribution Scheme **a.** Public Entities make pension and national insurance contributions on behalf of employees in line with Pension Act 2014 as amended. The contributions are treated as payments to a defined contribution pension plan. **b.** A defined contribution plan is a pension plan under which fixed contributions are paid into a separate pension Entity fund managed by Pension Fund Administrators (PFA). **c.** The Entity has no legal or constructive obligations to pay further contributions if the pension Entity does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. **d.** The contributions are recognized as employee benefit expense when they are due. **e.** Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available
13.	**Interest on Loans:** a. Interest on loans shall be treated as expenditure or as a charge in the financial performance report (Statement of Financial Performance). b. Interest expense is accrued using the effective interest rate method. c. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. d. The method applies this rate to the principal outstanding to determine interest expense in each period.
14.	**Foreign currency transactions:** a. Foreign currency transactions throughout the year shall be converted into Nigerian Naira at the ruling (Central Bank of Nigeria –CBN) rate of exchange at the date of the transactions. b. Foreign currency balances, as at the year end, shall be valued at the exchange rates prevailing on that date. c. Foreign Exchange gains/losses are recognised as income or expenses in the Statement of Financial Performance. d. Gain or loss from the translation of foreign operations result should be recognised in the reserve (translation reserve)

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15.	**Minority Interest** This represents the interests of external parties during the year under review.
16.	**Statement of Cash flow** This statement shall be prepared using the direct method in accordance with the format provided in the GPFS. The Cashflow statement shall consists of three (3) sections: a. **Operating activities** – These include cash received from all income sources of the Government and record the cash payments made for the supply of goods and services. b. **Investing activities -** These are the activities relating to the acquisition and disposal of non-current assets. c. **Financing activities -** These comprise the change in equity and debt capital structure of the PSE.
17.	**Cash & Cash Equivalent** **a.** Cash and Cash Equivalent means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three (3) months or less in which the Entity invests as part of its day-to-day cash management and which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. **b.** Cash & cash Equivalent is reported under Current Assets in the statement of financial position

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18.	**Accounts Receivable:** a. **Receivables from exchange transactions** i. Receivables from exchange transactions are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. ii. A provision for impairment of receivables is established when there is objective evidence that the Entity will not be able to collect all amounts due according to the original terms of the receivables. **b. Receivables from non-exchange transactions** i. Receivables from non-exchange transactions comprise; fees, taxes and fines (and any penalties associated with these activities) as well as social benefit receivables that do not arise out of a contract. ii. These receivables are initially assessed at nominal amount or face value; that is, the receivable reflect the amount of tax owed, levy, fine charged etc. iii. These receivables are subsequently adjusted for penalties as they are charged or possible write down-as a result of impairment. iv. Interest and penalties charged on tax receivables are presented as tax revenue in the statement of financial performance.
19.	**Prepayments** a. Prepaid expenses are amounts paid in advance of receipt of goods or services. b. They can represent payments made early in the year for benefits to be received over the latter part of the year, or payments made in one year for benefits to be received in subsequent years. c. Prepayments for which the benefits are to be derived in the following 12 months should be classified as Current Assets. Where the benefits are expected to accrue beyond the next 12 months, it should be accounted for as a Long-Term Prepayment and classified as Non-Current Assets. d. Prepayments that are identifiable with specific future revenue or event, e.g. adverts, should be expensed in the period in which the related event takes place; those that relate to specific time periods, e.g. insurance, rent, leasehold premises, should be recognised as an expense in such periods. **e.** Prepayments not exceeding e.g. ₦10,000 shall be expensed immediately, except there is a possibility of obtaining a refund or credit

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	within the same financial year. (However, threshold to be determined by the respective tier of government/Entities)
20.	**Inventories:** a. Inventories are valued initialy at cost and subsequently at the lower of cost and net realisable value b. Cost is determined using the FIFO method c. Inventories held for distribution for public benefit purposes are recorded at cost, adjusted where applicable for any loss of service potentials. d. Inventories are reported under Current Assets in the Statement of Financial Position.
21.	**Loans Granted:** Loans Granted are shown at estimated realisable value after providing for bad, doubtful debts and impairments.
22.	**Investments:** **Investments in associates** a. An Entity's investments in associates are accounted for using the equity method of accounting. b. An associate is an Entity over which a PSE has a significant influence and that is neither a subsidiary nor a joint venture. c. Under the equity method, investments in associates are carried in the statement of financial position at cost plus post acquisition changes in Entity's share of net assets of the associate. d. The statement of financial performance reflects the share of the results of operations of the associates. e. Where there has been a change recognised directly in the equity of the associate, the Investing entity recognises its share of any change and discloses this where applicable, in the statement of changes in net assets/equity. **Investments in joint ventures** a. A PSE's investments in its joint ventures are accounted for using the equity method of accounting. b. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. c. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost plus post acquisition changes in Entity's share of net assets of the joint venture. d. The statement of financial performance reflects the share of the results of operations of the joint venture.

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	e. Where there has been a change recognised directly in the equity of the joint venture, an Entity should recognise its share of any changes and discloses this, when applicable, in the statement of changes in net assets/equity. **Investment in Controlled entities (subsidiaries)** a. The controlled entities are all entities (including special purpose entities) over which a PSE or its entities has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. b. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a PSE controls another Entity. c. The controlled entities are fully consolidated from the date on which control is transferred to the Public Entity. They are de-consolidated from the date that control ceases. d. Intra-economic entity transactions, balances and unrealised gains on transactions between inter-group transactions are eliminated, unrealised losses are also eliminated. e. Accounting policies of controlled entities should be consistent with the policies adopted by the controlling entity. **Impairment of Investments** PSE are to determine at each reporting date whether there is any objective evidence as to whether an investment is impaired, if this is the case, the PSE calculates the amount of impairment as being the difference between the recoverable amount of the investment and the carrying value and recognises the amount in the statement of financial performance.
23.	**Financial Assets at fair value through net assets** a. Where a PSE uses its surplus cash to purchase short-term investments, the financial assets are classified at initial recognition as Financial Assets at fair value through net assets**.** b. An available-for-sale financial assets are included in non-current assets where a PSE intends to dispose off the investment in a period exceeding 12 months from the reporting date. c. Regular purchases and sales of financial assets are recognized at fair value on the trade-date (the date on which Entity commits to purchase or sell the asset) and subsequently at fair value with any

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	resultant fair value gains or losses recognised in the statement of Net Assets/Equity. d. Realized gains and losses on Financial Assets at fair value through net assets are recognized in the consolidated statement of financial performance as income or expense from Financial Assets at fair value through net assets securities.' e. Impairment losses on Financial Assets at fair value through Net assets is calculated using the effective interest method and is recognized in the consolidated statement of financial performance as part of expenses. f. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the entity shall establish fair value using valuation techniques. These include: i. the use of recent arm's length transactions, ii. reference to other instruments that are substantially the same iii. discounted cash flow analysis iv. option pricing models v. making maximum use of market inputs and relying as little as possible on entity-specific inputs. g. Entities shall ascertain at the date of preparation of each statement of financial report whether there is objective evidence that a financial asset or a group of financial assets is impaired. h. In the case of equity securities classified as available Financial Assets at fair value through net assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities have been impaired. i. If any such evidence exists for Financial Assets at fair value through net assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized is presented in the statement of financial performance.
24.	**Property, Plant & Equipment (PPE)** **a.** All PPE are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. **b.** Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially recognised at fair value, where fair value can be reliably determined, and as income systematically over the useful life of the PPE in the statement of

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	financial performance. c. The following shall constitute expenditure on PPE: i. Amounts incurred on the purchase of such assets plus other relevant cost incidental to bringing the asset to working condition. Consumables are to be wholly expensed irrespective of their amounts. ii. Construction Cost- including materials, labour and overheads. iii. Improvements to existing PPE, which significantly enhance their useful life. **Cost** The cost of an item of PPE shall comprise: its purchase price, including import and non-recurring costs and any directly attributable costs of bringing the asset to its location and working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. a. PPE shall be stated at cost or at their professional valuation less accumulated depreciation and impairment. b. The amount recorded for a PPE shall include all costs directly related to its acquisition including expenditures incurred to place the asset in usable condition for the Service. Accordingly, the cost of the assets shall include acquisition or construction costs, custom duties, transportation charges, professional fees and installation costs. Cash discounts shall be netted against the cost of the assets. **Capitalisation** a. The capitalisation threshold shall be ₦50,000 (Fifty Thousand Naira). b. Only amounts spent in connection with the above and whose values are equal or in excess of ₦50,000 (Fifty Thousand Naira) shall be capitalised. c. All assets equal to or above this amount shall be recorded in the PPE Register. However, in certain cases, it may be appropriate to aggregate individually insignificant value items such as chairs and tables, printers and UPS etc and apply the capitalisation threshold to the aggregate value. d. An item of PPE whose costs are below the capitalization threshold shall be charged appropriately to the following accounts: office supplies –

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	furniture, office supplies – IT equipment, office supplies – household equipment, etc.

e. Where an asset's category already exists for a newly acquired asset below the capitalisation threshold, such an asset shall be capitalised irrespective of its cost and recorded in the PPE register under the appropriate category.

Depreciation

The cost of PPE should be depreciated from the date they are available for use on a straight line basis over their expected useful lives less any estimated residual value using applicable rates as follow:

S/N	Item of PPE	Depreciation Rate
A	Leased Property	Over the term of the lease
B	Buildings	2 %
C	Investment property	2 %
D	Infrastructure	5 %
E	Plant and Machinery	10%
F	Transportation Equipment (except K)	20%
G	Office Equipment	25%
H	Furniture and Fittings	20%
I	Specialised Assets (e.g., books, military and paramilitary assets)	10%
J	Bearer Plant	4%
K	Aircraft, Ship and Train	5%
L	Specific cultural and heritage assets	Unlimited

i. The full depreciation charge shall be applied to PPE in the year they are available for use and no depreciation in the year of disposal.

ii. Fully depreciated assets that are still in use are carried in the books

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	at a carrying amount of ₦10.00 iii. An asset's carrying amount is written down immediately to its recoverable amount or recoverable service amount if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount **Revaluation** a. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period b. Surplus arising from the revaluation shall be transferred to the revaluation reserve in the financial position under reserves. c. In case of revaluation deficit, it shall be set against the respective asset value and the corresponding entry to either the revaluation reserve – if surplus exists on the same class of asset, or to the statement of financial performance as an expense. **Disposal** Gain or loss from disposal of an item of PPE is presented in surplus/deficit. **Impairment** An impairment test is to be conducted where there are indications that an item of PPE may have been impaired.
25.	**Investment Property** These are cash-generating property owned by a PSE. An investment property is initialy recognised at Cost. Determination of the cost is the same with PPE. Subsequent measurement of investment property is at fair value at period end and any fair value gain or loss is recognised in surplus/deficit. **Investment Income** Rental income earned/received from an investment property is presented in surplus/deficit as investment income. **Disposal** Gain or loss from disposal of investment property is presented in surplus/deficit.

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26.	**Constituency Project Assets** a. Constituency project Assets: these are assets whose acquisition or constructions are financed through approved interventions from budgetary provisions and are expected to be located across the various constituencies. b. The acquired or constructed assets by the relevant PSE shall be recognised as an asset and thereafter transferred to the benefiting constituency. c. A PSE should transfer the constituency project asset to the beneficiary, and expense through the Statement of Financial performance.
27.	**Intangible Assets** a. These consist of assets that are not physically tangible which have been acquired or internally generated and held for use from which benefits are derivable beyond a financial year. b. The cost of an item of intangible asset shall comprise: its purchase price, including non-recurring costs and any directly attributable costs of bringing the asset to its state of intended use. Any trade discounts and rebates shall be deducted in arriving at the purchase price. c. Intangible assets are tested for impairment annualy and amortised over the estimated useful life using the straight line method on an annual basis. d. Classes of Intangible Assets are as follows: i. Softwares acquired externally ii. Patent right iii. Copyrights iv. Trademarks and brand acquired v. Franchise vi. Other Intangible assets e. Intangible Assets are to be Amortised on a straight line basis over their estimated useful life based on the substance of their agreements.
28.	**Deposits**

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	a. Deposits consist of resource held in custody on behalf of third parties. b. Deposits can also represent payments received in advance for goods/services to be offered later. c. Deposits, for which the services are to be offered within 12 months from the end of the reporting period, shall be classified as Current Liabilities. Where the services are expected to span beyond the next 12 months after the end of reporting period, it shall be accounted for as a Non-Current Deposits and classified as Non-Current Liabilities.
29.	**Loans & Debts** a. Loans are funds borrowed to be paid back at an agreed period of time. They are presented in Statement of Financial Position as liabilities and are categorised as either short or long term loans. b. Short-term loans and debts are those expected to be settled within 12 months from the end of a reporting period. While long-term loans and debts are expected to be settled in a period exceeding 12 months from the end of a reporting period.
30.	**Unremitted Deductions** **a.** Unremmitted Deductions are monies owed to third parties such as tax Authorities, Unions, Coorporatives, Schemes and Associations, other government agencies, etc. These include: tax deductions and other deductions at source. **b.** These amounts shall be stated in the GPFS at their repayment value, which shall be treated as Current Liabilities in the Statement of Financial Position.
31.	**Payables** Payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method. **Accrued Expenses** **a.** These are monies payable to third parties in respect of goods and services received. **b.** Accrued Expenses for which payment is due in the next 12 months shall be classified as Current Liabilities. Where the payments are due beyond the next 12 months, it shall be accounted for as Non-Current Liabilities.
32.	**Current Portion of Borrowings** This is the portion of the long-term loan/ borrowings that is due for repayment within the next 12 months. This portion of the borrowings shall be classified under Current Liabilities in the Statement of Financial

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	Position.
33.	**Public Funds** **a.** These are balances of Government funds at the end of the financial year. **b.** They are classified under the Non-Current Liabilities in the Statement of Financial Position and include: Trust Funds, Revolving Funds and other Funds created by Government.
34.	**Reserves** Reserves are classified under equity in the Statement of Financial Position and include: Surpluses/ (Deficit) Reserve, Translation Reserve, Revaluation Reserve, Fair Value Reserve and other Reserves.
35.	**Contingent Liability** a. A contingent liability is a possible obligation arising from past events whose existence will be confirmed only by uncertain future event(s) or present obligation arising from past events that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably measured. b. Contingent liabilities shall only be disclosed in the Notes to the GPFS.
36.	**Contingent Assets** a. Contingent assets are possible future assets arising from past events whose existence will be confirmed on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. **b.** Contingent assets shall only be disclosed in the Notes to the GPFS.
37.	**Leases:** **Finance leases** a. These are leases which effectively transfer to the lessee Entity substantially all the risks and benefits incidental to ownership of the leased asset. b. They are capitalised at the present value of the minimum lease payment. c. The leased assets and corresponding liabilities are recognised while the leased assets are depreciated over the period the Entity is expected to benefit from their use. **Operating Leases** a. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

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	b. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of financial performance on a straight-line basis over the period of the lease.
38.	**Financial Instruments** a. These form part of the Government's everyday operations. These financial instruments include Bank Accounts, Short Term Deposits, Trade & Accounts Receivable, Trade & Accounts Payable, Term Borrowings, Treasury Bills, FGN Bonds, all of which are recognised in the Statement of Financial Position. b. Investment income and associated expenses e.g. transaction cost in relation to all financial instruments are recognised in the Statement of Financial Performance.
39.	**Borrowings** a. Borrowings are recognized initially at fair value, net of transaction costs incurred. b. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of financial performance over the period of the borrowings using the effective interest method. c. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan. The fee is capitalized and amortized over the period of the facility to which it relates. d. Borrowings falling due within 12 months are classified as current liabilities while borrowings falling due over more than 12 months are classified as long term borrowings. e. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized and included in the cost of that asset. f. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. g. All other borrowing costs are recognized as an expense in the period in which they are incurred.
40.	**Transfers to other government entities** Transfers to other government entities are non-exchange items and are recognized as expenses in the statement of financial performance.
41.	**Service Concession Arrangement:** **Service Concession Arrangement Assets** a. Service Concession Assets are operated by third parties under the terms

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	of Service Concession Arrangements. On recognition, the original service concession asset is measured at its fair value and any difference between its fair value and its carrying amount is recognised in the Statement of Financial Performance. b. Since the fair value of assets previously transferred under Service Concession Arrangements is not reliably available, Government has chosen to adopt the standard prospectively from 1 January 2016. c. If the terms of the arrangement require Government to compensate the operator for the concession asset by making payments and the payments are separable between the asset and service portions of the payment then the fair value of the original service concession asset is the fair value of the asset portion of the payments. If however, the asset and service portions of the payments are not separable, the fair value is determined using estimation techniques. **Service Concession Arrangement Liabilities** a. When Government recognises a Service Concession Arrangement asset it also recognises a liability of an equal amount. b. The liability is split between a financial liability and a performance obligation. c. The financial liability arises from the payments due from an entity under the terms of the Service Concession Arrangement and the performance obligation from the rights granted to the operator under the terms of the Service Concession Arrangement to earn revenues from the Service Concession Assets or associated asset(s).
	Note: ***Where the adoption of a particular policy or scenario as envisaged in this Accounting Policy becomes practically impossible or an entity faces a peculiar scenario, the entity should seek advice of the Accountant-General of the Federation.***