INTERNATIONAL FEDERATION OF ACCOUNTANTS

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| DATE: | 15 JUNE 2005 |
| MEMO TO: | MEMBERS OF THE IPSASB |
| FROM: | MATTHEW BOHUN |
| SUBJECT: | **ED XX REVENUE FROM NON-EXCHANGE TRANSACTIONS** |

## ACTION REQUIRED

The Board is asked to:

- **Review** the attached draft exposure draft (clean version); and
- **Approve** the exposure draft for issue, subject to any amendments agreed at the meeting.

## AGENDA MATERIALS



## BACKGROUND

At the IPSASB meeting in March 2005, the IPSASB reviewed a first draft of the ED "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)" and directed staff to make a number of changes in structure and content. The IPSASB also established a drafting sub-committee to assist the IPSASB Chair and staff in preparing the draft to be reviewed at the meeting in July 2005. The sub-committee consisted of members from Canada (sub-committee Chair), Australia, New Zealand, Norway, South Africa, United Kingdom and United States of America. During April 2005, Rick Neville, Ron Salole, David Bean, Paul Sutcliffe and I met in Toronto to prepare a draft ED to be circulated to the sub-committee. The resulting draft was circulated on May 10, 2005 with a request for comments by May 23, 2005. Comments were received from Australia, New Zealand and Norway, and these are attached at items 8.3, 8.4 and 8.5. The attached draft ED has been updated to reflect these comments, except where staff have interpreted the comment as being in conflict with a direction from the IPSASB, any issues that have not been dealt with appropriately should be raised during the review of the ED.

A clean copy of the draft ED is attached for review. The restructuring of the ED has resulted in extensive mark ups and it is not practicable to review a mark-up. A mark-up ED is available on request.

**MAJOR ISSUES FOR CONSIDERATION**

*Title of the ED*

The IPSASB decided at the last meeting that the ED would propose recognition requirements for contributions from owners. Consequently, the sub-committee considered that this should be reflected in the title of the ED and have amended it accordingly.

*Structure*

The IPSASB directed staff and the sub-committee to include the flowchart from the ITC within the body of the draft ED and to structure the ED in accordance with the structure set out in the flowchart. This has been done and has resulted in an ED that is structured in a similar manner to the ITC.

The sub-committee have reviewed this restructured draft, the majority of the sub-committee offered no additional comments, however see attachments 8.3 and 8.4 for comments from Australia and New Zealand, which suggested that further enhancements could be made.

*Specific Matters for Comment*

The sub-committee and staff have included ten specific matters for comment that cover the major issues raised in the draft ED. The IPSASB is asked to consider whether these are sufficient or whether any additional matters should be raised.

Apart from specific matter for comment (i) which was suggested by Australia, the sub-committee have reviewed these specific matters for comment.

*Definitions*

The response received from the New Zealand member and technical advisor suggested amendments to the definitions of “condition” and “restriction” that do not specifically mention that a transfer be returned to the transferor, but rather that the transfer must give rise to a liability. The remainder of the sub-committee did not comment on these definitions. Staff are of the view that the definitions have been developed at length by the Steering Committee, IPSASB and sub-committee and that additional changes should be made by the IPSASB itself, if necessary.

*Time Requirements*

The IPSASB directed staff and the sub-committee to review the provisions in the draft ED relating to time requirements to ensure that they conformed to the assets/liabilities approach, and if they did not they were to be amended or deleted. During the discussions in Toronto in April, it was noted that in many cases time requirements may be conditions as defined in the draft ED, or advance payments, therefore the time requirements provisions were not necessary. The time requirements provisions have, therefore, been deleted.

The sub-committee has had the opportunity to review these amendments, and the members that commented have agreed with the amendments.

*In-kind Services*

At the last meeting staff and the sub-committee were directed to include in the draft ED provisions relating to in-kind services that were not less onerous than the provisions included in ED 24 “Financial Reporting Under the Cash Basis of Accounting – Disclosure

Requirements for Recipients of External Assistance”. Staff and the sub-committee have included provisions that assume that in-kind services will be recognized provided they satisfy recognition criteria. The draft ED notes that the fair value of in-kind services received under external assistance agreements will generally be reliably measurable. It also notes that some in-kind services, such as those provided under community justice or community involvement programs may have a fair value that is not materially greater than zero. The ED proposes that where in-kind services are not recognized, for example because their fair value is zero, that the quantity and type of services received is to be disclosed. In the draft ED in-kind goods are not mentioned separately because such transactions were always included within the scope of the ED.

The sub-committee has reviewed and agrees with the amendments.

*Implementation Guidance*

The examples from the ITC have been included as implementation guidance and have been augmented with additional examples related to development of a measurement model for income tax, and in-kind services.

The sub-committee has reviewed and agrees with the amendments

*Basis for Conclusions*

The Basis for Conclusions has been revised. As directed it notes the differences between the approach adopted in the draft ED and the approaches adopted in IAS 20, “Accounting for Government Grants and Disclosure of Government Assistance” and IAS 41, “Agriculture” but the ED does not include the detailed comparison that has been included in IPSASs developed directly from IASs.

The sub-committee has reviewed and agrees with the amendments

## Recommendation

Staff recommend that the IPSASB review the draft ED, amend where necessary, and approve the ED for issue, with comments due at least four months after the date of issue.

**Matthew Bohun**
**TECHNICAL MANAGER**

**The Mission of IFAC**

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

The international Public Sector Accounting Standards Board (IPSASB) is a standing board of IFAC. It develops accounting standards for the public sector.

Copies of this exposure draft may be downloaded free of charge from the IFAC website at http://www.ifac.org.



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# COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft of the International Federation of Accountants (IFAC) was prepared by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS).

Comments should be submitted in writing so as to be received by Month XX 200X. E-mail responses are preferred. All Comments will be considered a matter of public record. Comments should be addressed to:

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# INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the accrual basis of accounting and the cash basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

## Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in these Exposure Drafts from governments, public sector entities, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify each proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

## Background

Many public sector entities derive most of their revenue from non-exchange transactions including taxes and transfers such as grants, appropriations, donations, gifts fines or in-kind services. Public sector entities may also receive inflows of resources as a result of a contribution from owners. Prior to the commencement of this project, these issues have not been addressed by International Public Sector Accounting Standards, and other international guidance did not address these issues from a public sector perspective.

This Exposure Draft has been developed following consideration of responses to an Invitation to Comment (ITC) that was developed by a Steering Committee appointed by the former Public Sector Committee (PSC). The ITC was published by the PSC in January 2004 with a request for comments to be received by June 30, 2004. (At its November 2004 meeting, the IFAC Council approved a change in the name of the Public Sector Committee to the International Public Sector Accounting Standards Board (IPSASB)).

## Purpose of the Exposure Draft

This Exposure Draft proposes to establish requirements for the recognition, measurement and disclosure of revenue from non-exchange transactions and contributions from owners.

## Request for Comments

Comments are invited on any proposals in this Exposure Draft by Month XX, 200X. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspects of the Exposure Draft (including materials and examples contained in the implementation guidance) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments, clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

## Specific Matters for Comment

The IPSASB would particularly value comment on the proposals to:

(a) Include in the Standard, definitions of “taxes”, “taxable event”, “expenses paid through the tax system” and “tax expenditures” (paragraph 6).

(b) Require entities to distinguish exchange and non-exchange components of transactions where the consideration is not nominal and is not approximately equal to the fair value of the resources received. Paragraphs 7 and 22 notes that these transactions are in substance two transactions, one an exchange, and the other a non-exchange. The ED proposes that the components be distinguished and recognized separately.

(c) Include recognition requirements for contributions from owners in this Standard (paragraphs 15 – 19).

(d) Measure assets acquired in a non-exchange transaction at fair value on initial recognition (paragraph 24). IPSAS 16 "Investment Property" and IPSAS 17 "Property, Plant and Equipment" require assets to be measured at cost on initial recognition and specify that cost is fair value when assets are acquired in a non exchange transaction.

(e) Not permit the netting of expenses paid through the tax (paragraphs 36 – 39) against taxation revenue. Instead they must be recognized separately on a gross basis. The ED distinguishes between expenses paid through the tax system and tax expenditures, and requires separate recognition of the former.

(f) Require the recognition of in-kind services that satisfy the recognition requirements (see paragraphs 46 – 47).

(g) Require recognition of liabilities in respect of taxes received in advance of the taxable event and conditions, but not in respect of restrictions (48 – 57).

(h) Require liabilities related to inflows of resources to be measured at the same amount as the inflow of resources (paragraph 48(b)) unless the condition clearly indicates that another amount is more appropriate.

(i) Paragraph 60 requires a non-exchange transaction that gives rise to the recognition of an asset also give rise to the recognition of revenue to the extent that a liability is not recognized. Are there any non-exchange transactions whereby it would be appropriate to initially recognize revenue even to the extent that a liability is recognized resulting in the simultaneous recognition of an expense?

(j) Provide entities a five year period in which to conform their accounting policies in respect of taxation revenue to the requirements of this Standard (paragraphs 68 – 72).

# International Public Sector Accounting Standard IPSAS XX

# Revenue from Non-Exchange Transactions (Including Taxes and Transfers) and Contributions from Owners

## CONTENTS

International Public Sector Accounting Standard XX, “Revenue from Non-Exchange Transactions (Including Taxes and Transfers) and Contributions from Owners” (IPSAS XX) is set out in paragraphs 1 –74. All the paragraphs have equal authority except as noted otherwise. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the “Preface to the International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# International Public Sector Accounting Standard IPSAS XX

# Revenue from Non-Exchange Transactions (Including Taxes and Transfers) and Contributions from Owners

## Objective

1. The objective of this Standard is to prescribe the financial reporting of revenue arising from non-exchange transactions. It deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions including the treatment of contributions from owners. It requires revenue to be measured at the fair value of the increase in net assets arising from the non-exchange transaction, other than increases relating to contributions by owners.

## Scope

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions and contributions from owners.**

3. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**

4. This Standard deals with revenue arising from non-exchange transactions and contributions from owners. It does not deal with revenue arising from exchange transactions, which is dealt with in IPSAS 9, “Revenue from Exchange Transactions”. While revenues received by public sector entities arise from both exchange and non-exchange transactions, the majority of revenue of governments and other public sector entities are typically derived from non-exchange transactions such as:

   (a) Taxes; and

   (b) Transfers, including grants, fines, donations, whether cash or non-cash, including in-kind services.

### Government Business Enterprises

5. The *Preface to International Public Sector Accounting Standards* issued by the International Public Sector Accounting Standards Board (IPSASB)

explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are profit-oriented entities, accordingly, they are required to comply with IFRSs.

## Definitions

6. **The following terms are used in this Standard with the meanings specified:**

**Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.**

**A condition on a non-exchange transaction is a stipulation that specifies that transferred assets must be returned to the transferor if not deployed as specified or if a specified future event occurs or does not occur.**

**Contributions from owners are future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:**

**(a) Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and /or**

**(b) Can be sold, exchanged, transferred or redeemed.**

**Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.**

**An exchange transaction is a transaction in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.**

**Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.**

**A fine is a penalty imposed by a court or other law enforcement body for the breach of a law or regulation that requires person or other entity to sacrifice economic benefits or service potential.**

**A non-exchange transaction is a transaction that is not an exchange transaction. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal**

**value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.**

**A restriction is a stipulation that limits or directs the purposes for which a transferred asset may be used, but does not specify that the asset must be returned to the transferor if not deployed as specified.**

**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.**

**A stipulation is a term, in legislation or a legally binding agreement, imposed upon the use of a transferred asset by entities external to the reporting entity.**

**The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.**

**Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.**

**Taxes are economic benefits compulsorily received or receivable by public sector entities, in accordance with legislation or other laws, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.**

**Transfers are non-exchange transactions other than taxes.**

**Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards and are reproduced in the Glossary of Defined Terms published separately.**

## Non-Exchange Transactions

7. In distinguishing between exchange and non-exchange transactions, the substance rather than the form of the transaction should be considered. For example, the sale of goods is normally classified as an exchange transaction, however if the transaction is conducted at a subsidized price, that is a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In some circumstances a transaction may comprise two components, an exchange component, and a non-exchange component, which are recognized separately.

8. Entities may receive discounts or other reductions in the price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction. In many instances market

forces or regulations mean that a public sector entity will pay a lower price than other market participants. Notwithstanding the discount, in these cases the exchange between the parties is at approximately fair value.

**Revenue**

9. Revenue comprises inflows of economic benefits or service potential received and receivable by the entity which represent an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control use or otherwise benefit from the collected assets in the pursuit of its objectives. Similarly, in a custodial or agency relationship, amounts collected on behalf of the principal do not result in increases in net assets/equity for the collecting entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is any amount received or receivable for the collection or handling of the gross inflows.

10. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where a national government imposes a tax which it is required to pass on to lower level governments, the tax increases net assets and revenue of the national government because the lower level government does not impose the tax. This is distinguished the agency relationship because in these circumstances the government with the legal authority to collect the tax is able to benefit from that tax in the pursuit of its objectives. Further, the collection of tax payments by the taxation agency on behalf of the government that imposes the tax, are not economic benefits or service potential which flow to the tax agency and will not result in increases in net assets of the tax agency. Therefore, they are excluded from revenue of the tax agency.

11. Assets arise from a transfer when the entity can use or otherwise benefit from the resources and can exclude or otherwise regulate the access of others to the benefits of those resources. To the extent a liability is not also recognized, the entity recognizes revenue. For example, a national government may transfer resources to a state government to fund primary education provided by local governments, if the state government has discretion as to the amount it transfers to particular local governments, the state government controls the amount it receives from the national government and the transaction gives rise to an asset and revenue, rather than an agent transaction – the transaction may also give rise to a liability to be recognized in accordance with this Standard. In some rare cases, a local government may administer resources transferred to it by a national government with no discretion to deploy the resources except as

specifically directed by the national government – in these cases the local government is acting as an agent and the transaction does not give rise to revenue.

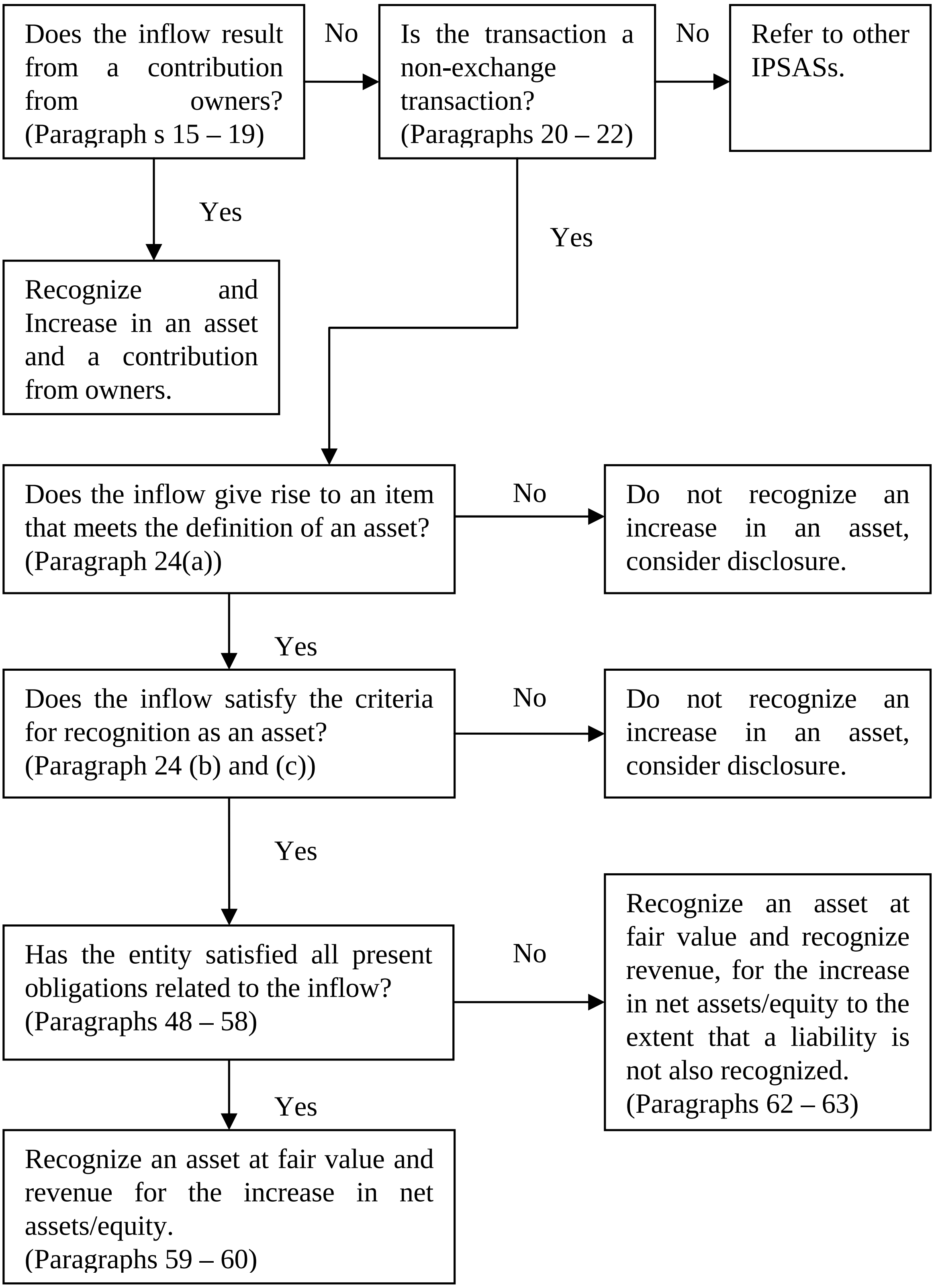
12. In the public sector many entities receive inflows of resources primarily from owners, either as transfers, loans or as contributions from owners. Where a binding loan agreement is in place the entity recognizes the inflow as a loan.

13. In many instances there will be costs associated with revenue. For example, a government will incur costs to administer a taxation system in order to raise tax revenue. These costs are recognized separately from the revenue in the general purpose financial statements.

## Recognition of Revenue Arising from Non-Exchange Transactions and Recognition of Contributions from Owners

14. An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that satisfy the recognition criteria. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognize as a liability. Revenue from non-exchange transactions is recognized when an entity's net assets increase, other than from an increase relating to contributions from owners. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyze non-exchange transactions to determine which elements of general purpose financial statements will be recognized as a result of the transaction. The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether revenue arises. The flowchart indicates that there are a number of steps to take before determining whether revenue is to be recognized, this Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 15 to 67, in particular the requirement to recognize revenue in paragraph 61 and to measure revenue at fair value in paragraph 62.

**Initial Recognition of Inflows of Resources**



## Contributions from Owners

15. Contributions from owners are excluded from the definition of revenue. Therefore the initial step in analyzing a transaction is to determine whether the substance of the transaction is that of a contribution from owners.

16. **An inflow of resources is a contribution from owners when it is evidenced by any of the following:**

    (a) **A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;**

    (b) **A formal agreement, in relation to the contribution, establishing a financial interest in the net assets/equity of the recipient which can be sold, transferred or redeemed; or**

    (c) **The issuance, in relation to the contribution, of equity instruments which can be sold, transferred or redeemed.**

17. The characteristics identified in Paragraph 16 indicate the form that contributions from owners takes. However, the entity also considers the substance of the transaction. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements if material.

### Recognition of Contributions from Owners

18. **An inflow of resources embodying future economic benefits or service potential shall be recognized as a contribution from owners when:**

    **(a) It satisfies the definition of contribution from owners; and**

    **(b) The entity recognizes the inflow of resources as an asset.**

19. In jurisdictions where such contributions directly are made to the net assets/equity of a public sector entity, they are to be evidenced by any of the items in paragraph 16 and are recognized as contributions to net assets/equity in the statement of changes in net assets/equity and the statement of financial position.

## Non-Exchange Transactions

20. In some transactions there is an exchange of approximately equal value, these are exchange transactions, and are dealt with in other IPSASs.

21. In other transactions the entity will receive resources for no consideration, such as taxes or transfers. These are non-exchange transactions and are dealt with in this standard.

22. There are a further group of transactions where the entity provides some consideration that does not approximate the fair value of the resources received. In these transactions the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is dealt with separately. For example, where an entity purchases land for half its fair value, it may determine that it has purchased a half-share in the land and received a transfer for the remaining share.

## Recognition of Assets

23. **An inflow of resources from a non-exchange transaction shall be recognized as an asset when and only when:**

    (a) **It meets the definition of an asset;**

    (b) **It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and**

    (c) **The fair value of asset can be measured reliably.**

24. To recognize assets arising as a result of a non-exchange transaction all the elements in paragraph 23 must be satisfied. The definition of an asset requires that there be a past event that has resulted in the entity obtaining control of the asset. This past event will vary with each type of transaction. For taxation revenue, the past event will be that event that the taxing authority, for example the legislature, has determined will be subject to tax. The past event indicates the earliest point in time that the entity can recognize an asset. In addition to the past event the entity must control the asset, and it must be probable that the future economic benefits or service potential will flow to the entity.

25. **Assets arising from a non-exchange transaction shall initially be measured at their fair value as at the date of acquisition.**

### Probable Inflow of Resources

26. An inflow of resources is “probable” when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor.

27. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify an inflow as probable. For example, if a public school were destroyed by a forest fire and the national

government announced its intention to appropriate funds to rebuild the school, the school would not recognize an inflow of resources until the appropriation is made. In circumstances where an appropriation is required before an inflow occurs, an entity will not identify an inflow as probable until such time as the appropriation is made.

### Control of an Asset

28. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain assets, for example financial instruments or bank accounts. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets.

## Taxes

29. **A taxable event is the past event that gives rise to an asset from a taxation transaction.**

30. Taxes are the major source of revenue for many governments and public sector entities. Taxes are generally defined in paragraph 6 as economic benefits received or receivable by public sector entities, in accordance with legislation or other laws established to provide revenue to the government, but excluding fines or other penalties imposed for breaches of the law. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

31. Tax laws can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws establish a government's right to collect the tax, identify the basis on which tax is calculated, and establish procedures to administer the tax, that is procedures to calculate the tax receivable and ensure payment is received. Tax laws often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity attracting tax and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax

laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

32. Similar types of taxes are levied in many jurisdictions. The reporting entity needs to examine the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in legislation, it is likely that the taxable event for:

(a) Income tax is the earning of assessable income during the taxation period by the taxpayer;

(b) Value added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

(c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

(d) Customs duty is the movement of dutiable goods or services across the customs boundary;

(e) Death duty is the death of a person owning taxable property; and

(f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied if the tax is levied on a periodic basis.

## Taxes Paid in Advance

33. Consistent with the requirement of paragraph 48(a), taxes received in advance of the taxable event are recognized as an asset and a liability because if the taxable event does not occur, the government has an obligation to refund the taxes paid or offset such taxes in advance against taxes due as a result of a subsequent event. Advance payments received in respect of taxes are not fundamentally different from other advance payments received, so a liability is recognized until revenue accrues to the government, which is when the taxable event occurs. When the taxable event occurs the liability is discharged and revenue is recognized.

## Measurement of Tax Assets

34. Where there is a separation between the taxable event and collection of taxes, public sector entities can reliably measure assets arising from taxation transactions by using, for example, models based on the history of collecting the particular tax in prior periods, and the relationship of taxation receivable to other events in the economy. Measurement models will take account of factors such as:

(a) The tax law allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

(b) Taxpayers failing to file returns on a timely basis;

(c) Valuing non-monetary assets for tax assessment purposes;

(d) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;

(e) The financial and political costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the government may outweigh the benefits received; and

(f) A variety of circumstances particular to individual taxes and jurisdictions.

35. In some rare cases the assets arising from taxation transactions and the related revenue cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances where several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently the recognition criteria may not be satisfied until payment is received or receivable.

## Expenses Paid Through the Tax System and Tax Expenditures

36. **Taxation receivable shall be determined before deducting expenses paid through the tax system.**

37. In some jurisdictions, the government uses the tax system as a convenient method of paying benefits to taxpayers, which would otherwise be paid using another payment method, such as writing a check or directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, by reducing the individual's tax liability, by making a check payment or by paying an amount directly to the insurance company. In these cases, the benefit is payable irrespective of whether the individual

pays taxes. Consequently this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

38. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions home owners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax assessable income. These types of concessions are available only to taxpayers; if an entity (including a natural person) does not pay tax it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue not expenses and do not give rise to inflows or outflows of resources; that is, they do not give rise to assets or expenses of the taxing government.

39. The key distinction between expenses paid through the tax system and tax expenditures is that for expenses paid through the tax system, the benefit is available to recipient entities irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1, “Presentation of Financial Statements”, paragraph 55 prohibits the offsetting of items of revenue and expense unless permitted by another standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

## Transfers

40. **Transfers give rise to an asset when the entity attains control of the transferred resources.**

41. Transfers include grants, donations, appropriations, debt forgiveness and fines. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal consideration in exchange and are not taxes as defined in this IPSAS.

42. An entity generally obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has a legally enforceable claim against the transferor. Many agreements to transfer resources become legally binding on all parties before the transfer takes place. Sometimes one entity promises to transfer resources, but fails to do so, consequently only when claims are legally enforceable, and the entity assesses that it is probable that the inflow of resources will occur will revenue be recognized. Until a claim for resources is legally enforceable, the entity cannot exclude or regulate the access of the transferor to the benefits of the resources proposed for transfer.

### Debt Forgiveness and Assumption of Liabilities

43. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In other circumstances, a public sector entity's controlling entity may assume responsibility to satisfy the controlled entity's liabilities. For example a government may assume employee entitlement liabilities recognized by a government department. In such circumstances, the former debtor recognizes an increase in net assets because a liability it previously owed is extinguished.

44. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

### Fines

45. Fines are penalties imposed upon an entity by a court or a quasi-judicial body for violations of laws or administrative rules. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court. The payment is a fine. In some jurisdictions law enforcement officials are able to impose fines on individuals considered to have breached the law, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Fines normally require an entity to transfer a fixed amount of cash to the government and do not impose on the government any obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 23. As noted in paragraph 9, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### In-kind Services

46. Public sector entities may be recipients of in-kind services under voluntary or non-voluntary schemes operated in the public interest, for example:

    (a) Technical assistance from other governments or international organizations;

    (b) Persons convicted of offenses may be required to perform community service for a public sector entity;

    (c) Public hospitals may receive the services of volunteers;

    (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) Local governments may receive the services of volunteer fire fighters.

47. The fair value of technical assistance is normally straightforward to measure. Entities will normally be able to measure the fair value of other in-kind services, such as in-kind professional services, however when determining the fair value of the types of in-kind services described in paragraph 46(b) to 46(e), the entity may conclude that the services provided do not have a fair value that is materially greater than zero. In many instances, the in-kind services provided are provided by persons with little or no training and are fundamentally different from the services the entity would acquire if the in-kind services were not available, which would typically be provided by persons with a much higher level of training.

## Present Obligation

48. **An entity shall:**

(a) **Recognize a liability in respect of a payment made in advance of a taxable event. The liability shall be measured at an amount equal to the amount recognized as an asset, unless the tax law clearly indicates that another amount is more appropriate;**

(b) **Recognize a liability in respect of a condition when the inflow of resources is recognized as an asset. The liability shall be measured at an amount equal to the amount recognized as an asset, unless the condition clearly indicates that another amount is more appropriate; and**

(c) **Not recognize a liability in respect of a restriction.**

49. A present obligation is a duty to act or perform in a certain way and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in legislation or legally binding agreements establishing the basis of transfers. They may also arise from the normal operating environment, such as the receipt of advance payments.

50. In the normal course operations, a public sector entity may accept a payment prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance exists until the taxable event occurs because in the absence of that taxable event the entity will be required to return the advance.

51. An entity analyzes any and all stipulations attaching to an inflow of resources, to determine whether those stipulations impose a condition or a restriction.

52. In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to legislation or legally binding agreements that impose stipulations that they be used for particular purposes. For example:

   (a) Taxes, the use of which is limited by legislation to specified purposes;

   (b) Transfers:

      (i) From national governments to provincial, state or local governments;

      (ii) To governmental agencies that are created by legislation or statute to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

      (iii) From donor agencies to governments or other public sector entities.

53. A condition requires the return of an asset to the taxpayer or transferor if it is not deployed as specified in the legislation or legally binding agreement. An entity analyzing the substance of an agreement containing a condition will conclude that it has a present obligation to sacrifice future economic benefits or service potential to satisfy the condition when it gains control of the granted resources. A liability is recognized because the entity has a present obligation to sacrifice future economic benefits or service potential in fulfilling the condition or return the transferred resources to the transferor. For example, if a local government receives a grant from the national government to establish an elementary school within a three year period or return the grant money, the local government recognizes the granted assets when received, it also recognizes a liability equal to the amount of the grant, until such time as it establishes the elementary school, or returns the resources to the national government. A grant agreement may stipulate that the entity is required to return less than the full amount of the grant to the transferor, in which case the entity recognizes the lesser amount as a liability.

54. When the conditions relating to a transfer are satisfied when the liability recognized is reduced and revenue is recognized. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide

goods or services to third parties, or return unused funds to the transferor, revenue is recognized as goods are provided. Further if the condition specifies that future event must occur, such as the establishment of a school, when that event occurs, the condition is satisfied, the liability is no longer recognized and revenue recognized.

55. The substance of a transaction, not merely its form, indicates the appropriate financial reporting treatment. The inclusion of a condition in a grant agreement is not sufficient for a liability to be recognized when the entity gains control of the asset. To satisfy the criteria for recognition as a liability an outflow of resources must be probable, if despite conditions included in an agreement, the entity concludes that an outflow is not probable, for example because the condition is not legally enforceable, then no liability will be recognized.

56. The definition of restriction in paragraph 6 states that restrictions do not require the return of the transferred asset if not deployed in accordance with the legislation or legally binding agreement, therefore a liability is not recognized in respect of a restriction. For example, a donor may give a public sector art gallery a painting stipulating that it be held in perpetuity by the gallery, but does not specify what would happen if the gallery breached the agreement. The public sector gallery would conclude that it has no present obligation to sacrifice future economic benefits or service potential to satisfy the restriction because if it breached the restriction and sold or otherwise disposed of the painting, the agreement does not require the entity to sacrifice the sale proceeds.

57. The preceding paragraphs are to be interpreted in the light of all the facts of particular transactions and a detailed analysis of the legislation or legally binding agreement transferring the assets. Some legislation and agreements are relatively simple and straightforward. In many instances, however, the stipulations attached to the transfer are complex and a single piece of legislation or agreement may contain conditions and restrictions relating to the same transferred asset. The entity examines the substance of the transaction and the legislation or agreement affecting the transaction, to determine whether it recognizes a liability. In some cases, the legislation or agreement is so complex that the entity will have recourse to legal experts to determine whether a liability exists. In other cases, it will only become apparent that a liability exists or does not exist when a donor and recipient litigate legislation or an agreement in the courts.

58. The mere inclusion of a condition in legislation or agreement is not in itself sufficient for a liability to be recognized when the entity gains control of the asset. To satisfy the criteria for recognition as a liability an outflow of resources must be probable. For this to occur:

(a) In respect of conditions that require the entity to perform specified actions, sufficient detail is included to ensure that performance can be monitored. The legislation or agreement will also specify the consequences of a breach of the condition.; and

(b) In respect of conditions that specify that a subsequent event occurs (or does not occur), the possibility that the subsequent event will not occur (or occur) must not be remote.

The transferor will monitor performance against the legislation or agreement and will enforce penalty in the event of a breach. If the substance of the conditions is such that fulfillment is virtually guaranteed without any action of the recipient entity or without the passage of time, the transfer is in substance unconditional.

## Recognition of Revenue from Non-Exchange Transactions

59. **An inflow of resources recognized as an asset shall be recognized revenue, except to the extent that a liability is also recognized.**

60. **As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources recognized as an asset, it shall reduce the carrying amount of the liability and recognize revenue.**

61. When an entity recognizes an increase in net assets as a result of a non-exchange transaction, it recognizes revenue. If it has recognized a liability in respect of the inflow, when the liability is reduced, because the taxable event occurs, the transfer becomes legally binding, or a condition is satisfied, it reduces the liability and recognizes revenue.

## Measurement of Revenue from Non-Exchange Transactions

62. **Revenue from non-exchange transactions shall be measured at the fair value of the increase in net assets recognized by the entity as at the date of initial recognition.**

63. When, as a result of a non-exchange transaction, an entity recognizes an asset, it also recognizes revenue, unless it is also required to recognize a liability. If it recognizes a liability in respect of conditions relating to the receipt of the asset, it subsequently recognizes revenue when the condition is fulfilled.

## Disclosures

64. **An entity shall disclose:**

(a) **The accounting policies adopted for the recognition of revenue from non-exchange transactions;**

(b) **The amount of revenue recognized during the period from each of the significant category of non-exchange transactions recognized including revenue arising from:**

(i) **Taxes, disclosing separately major classes of taxes; and**

(ii) **Transfers, disclosing separately each major source of transfer revenue.**

(c) **For each significant category of revenue from non-exchange transactions, the basis on which fair value of the inflow of resources was determined.**

(d) **The amount of liabilities recognized in respect of transfers of resources.**

(e) **The fair value of any in-kind services not recognized.**

(f) **The existence and amounts of restrictions on assets imposed by stipulations on non-exchange transactions.**

65. Conditions are recognized as liabilities because they require the entity recognizing assets received in a non-exchange transaction to sacrifice future economic benefits or service potential to satisfy the stipulations of the legislation or agreement. It is important for users to know the nature and extent of such liabilities so that they can make decisions about the entity.

66. In-kind services provide a valuable contribution to many public sector entities. In some cases, the entity will determine that, although it was the principal beneficiary of these services, the in-kind services do not satisfy the requirements for recognition, for example because the entity is unable to exercise sufficient control to satisfy the definition of control of an asset. In these circumstances, where the fair value of the services is reliably measurable, the fair value of the services received is disclosed so that users can understand the contribution of such services to the financial position and performance of the entity. In circumstances where the entity cannot reliably measure the fair value of the services received, or the fair value is not materially greater than zero, then the entity makes disclosures about the quantity and type of services received, so that users can make decisions about the contribution of those services to the entity's operation.

67. IPSAS 17, "Property, Plant and Equipment" paragraph 74 requires the disclosure of the existence and amounts of restrictions on title for property, plant and equipment pledged as securities for liabilities. In addition to this requirement, this Standard requires the disclosure of restrictions imposed

by the stipulations attached to non-exchange transactions. Users need this information to assess the availability of assets to the entity.

## Transitional Provisions

68. **Entities are not required to change their accounting policies in respect of the recognition and measurement of taxation revenue for reporting periods beginning on a date within five years following the date of first adoption of this Standard.**

69. **Changes in accounting policies in respect of the recognition and measurement of taxation revenue made before the expiration of the five year period permitted in paragraph 68, shall only be made to conform the accounting policies with this Standard.**

70. Entities may adopt accounting policies for the recognition taxation revenue that do not comply with the provisions of this standard. The transitional provision is intended to allow entities a period to develop reliable models for measuring taxation. The transitional provisions allow entities to apply this Standard incrementally to different classes of taxation revenue. For example, entities may be able to recognize and measure property taxes in accordance with this Standard from the date of application, but may require five years to fully develop a reliable model for measuring income tax revenue.

71. When an entity takes advantage of the transitional provisions in this Standard, its accounting policies may only be changed to conform to this Standard. An entity retains its existing accounting policies until it decides to fully apply the provisions of this Standard or until the transitional provision expires, whichever is earlier. An entity may not, for example, change from a policy of recognition on a cash basis, to a modified cash or modified accrual basis before it applies this Standard.

72. **When an entity takes advantage of the transitional provision in paragraph 68 that fact should be disclosed. An entity shall disclose which classes of taxation revenue are recognized in accordance with this Standard, and which have been recognized under a pre-existing accounting policy. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the classes of taxation revenue previously recognized on another basis, but which are now recognized in accordance with this Standard shall be disclosed.**

## Effective Date

73. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after Month XX, XXXX. Earlier application is encouraged. If an entity applies this Standard for an earlier period it shall disclose that fact.**

74. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

# Implementation Guidance

## Measurement of Revenue from Non-Exchange Transactions — Examples

*This guidance accompanies, but is not part of IPSAS XX, "Revenue from Non-Exchange Transactions (Including Taxes and Transfers) and Contributions from Owners".*

**Example 1: Income Tax**

IG1. A national government (reporting entity) imposes a 25 percent tax on personal income earned within the country. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the taxation department by April 15 of the year following the tax year (calendar year) and must pay the remaining tax owed (or claim a refund) at that time. The government's reporting period ends on June 30.

IG2. The government controls a resource – income tax receivable – when the taxable event occurs, which is the earning of assessable income by taxpayers. At the end of the reporting period, the government recognizes assets and revenue in respect of income tax on the income earned during the reporting period to the extent that it can reliably measure it. Assets and revenue will also be recognized in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

**Example 2: Value added tax**

IG3. A national government (reporting entity) imposes a value added tax (VAT) on all businesses. The tax is 15 percent of the value added and is collected by merchants from customers (taxpayers) at the time of sale. Large and medium sized businesses are required to submit VAT returns electronically to the tax department on a weekly basis; however, small businesses are permitted to submit VAT returns manually on a quarterly basis.

IG4. The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the

the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable.

**Example 3: Goods and Services Tax**

IG5. A national government (reporting entity) imposes a goods and services tax (GST) on all businesses. The tax is 10 percent of the value of goods and services sold. Most businesses are required to electronically submit GST returns to the tax department on a weekly basis; however, small businesses are permitted to manually submit GST returns on a quarterly basis.

IG6. The government controls a resource – GST receivable – when the taxable event occurs, which is the purchase or sale of taxable goods and services during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of reporting period in which the sales and purchases take place, or later, as soon as it can reliably measure the tax receivable.

**Example 4: Customs Duty**

IG7. A national government (reporting entity) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department, and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IG8. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

**Example 5: Death Duties**

IG9. A national government (reporting entity) imposes death duties of 40% on all estates valued at more than 500,000 currency units (CU). Medical practitioners and funeral directors are required to notify the tax department of all deaths. An assessor then makes an interim valuation of the estate to determine whether duty will be payable. Executors of estates are required to file an inventory of the estate with the tax department, which values the estate and determines the duty due from the estate. Probate cannot be granted until all duty is paid. Due to complexities in testamentary law and frequent appeals of valuations, it takes on average four years to settle estates and collect the duty due.

IG10. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable property. The government recognizes assets and revenue in the general purpose financial statements of reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

**Example 6: Property Tax**

IG11. A local government (reporting entity) levies a tax of 1 per cent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

IG12. The government controls a resource – property taxes receivable – when the taxable event occurs, which is passing of the date on which the taxes are levied – July 31. The government recognizes assets and revenue in the general purpose financial statements of reporting period in which that date occurs.

**Example 7: Measurement of Taxation Revenue**

IG13. A national government (reporting entity) levies income tax on the personal income of all persons earning income within its jurisdiction. The tax was first levied some seventy years before the current reporting period, and taxation statistics are available for the entire seventy year period. The tax year and the reporting period are the calendar year. Taxpayers have until April 30 each year to file their tax return, and until June 30 to pay any outstanding taxes. The government is required by legislation to present audited consolidated general purpose financial statements to the legislature no later than March 31.

IG14. Income tax revenue should be recognized in the reporting period in which the taxable event occurred, that is the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection history it has in the taxation statistics, which it compares to other observable phenomena to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax) and banking statistics collected by the central bank. The government enlists the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with International Standards on Auditing.

IG15. The model enables the reporting entity to reliably measure the assets and revenue accruing to the government during the reporting period, which are then recognized and disclosed in the general purpose financial statements, the notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue.

**Example 8: Appropriation to Government Department**

IG16. On November 1, 20X1 the legislature passes an appropriation bill that provides an appropriation of CU100 million to the Department of Education (reporting entity) for the year January 1, 20X2 to December 31, 20X2. The bill becomes an act (a law) on 1 January 20X2, when it is proclaimed by the government. The government can withdraw the bill before proclamation, and has done so on numerous occasions as circumstances change. The appropriation act includes a detailed budget for the Department of Education that requires that the Department only spend the appropriated amount as authorized or return it to the government. The government does not operate a central bank account – all government entities operate accounts at the central bank from which they authorize their own payments. Appropriated amounts are transferred to entity accounts when the appropriation bills are proclaimed.

IG17. The Department of Education recognizes the appropriated amounts as assets when it obtains control over those resources, which is when the appropriation bill is proclaimed, on January 1, 20X2. The stipulation to spend money only according to the approved budget is a condition, and a liability should be recognized in respect of this condition. The liability is discharged as the condition is satisfied, that is when the department spends according to its budget. Assets, liabilities and revenue relating to the appropriation are recognized in the general purpose financial statements of the reporting period that ends after January 1, 20X2.

**Example 9: Grant to another level of government for general purposes**

IG18. The national government (transferor) makes a grant of CU10 million to a local government in a socio-economically deprived area. The local government is required under its constitution to undertake various social programs, however it has insufficient resources to undertake all of these programs without assistance. There are no stipulations attached to the grant, however the national government has indicated that if the grant money is not used appropriately, the following year's grant will be reduced. All local governments are required to prepare and present audited general purpose financial statements.

IG19. There are no stipulations attached to these grants, so the transfers are recognized as assets and revenue in the general purpose financial statements of the reporting period in which the they are received or receivable.

**Example 10: Transfer to a public sector university with restrictions**

IG20. The national government (transferor) provides a transfer of 200 hectares of land in a major city to a university for the establishment of a university campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

IG21. The university recognizes the land as an asset in the statement of financial position of reporting period in which it obtains control of that land. The land should be recognized at its fair value. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

**Example 11: Grant to another level of government with conditions attached**

IG22. The national government (transferor) grants CU10 million to a province (recipient) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for new railroad or tramway systems, and 20 percent for rolling stock purchases and improvements. Under the terms of the grant, the money can only be used as stipulated, and the province is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent in the current year or be returned to the national government.

IG23. The province recognizes the grant money as an asset in the statement of financial position of the reporting period in which it agreed the terms with the national government. The province also recognizes a liability in respect of the condition attached to the grant. As the province satisfies the condition, that is as it makes authorized expenditures, it reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

**Example 12: Research Grant (in substance exchange transaction)**

IG24. A large corporation that makes cleaning products (transferor) gives money to a public university (recipient) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation stipulates that the research results are to be shared with the corporation before being announced to the public and that the corporation has the right to apply for a patent on the compound.

IG25. This is an exchange transaction. (In return for its “grant”, the corporation receives the right (future economic benefit) to profit from the research results.) IPSAS 9, “Revenue from Exchange Transactions” applies to this transaction.

**Example 13: Debt forgiveness**

IG26. The national government had lent a local government CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The national government writes to the local government and advises of its decision; it also encloses the loan documentation, which has been annotated to the effect that it is not longer enforceable.

IG27. When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognizes the liability for the loan and recognizes revenue in the statement of financial performance of the reporting period in which the liability is derecognized.

**Example 14: Compound Transaction - Purchase of property at a subsidized price**

IG28. A public school (reporting entity) purchases land with a fair value of CU100,000 for CU50,000 from a local government. The reporting entity concludes that it has, in substance, engaged in two transactions. The first transaction involves the purchase of a half share in the land for CU50,000, the second is a non-exchange transaction that transfers the remaining half share of the land to the school.

IG29. In its general purpose financial statements for the reporting period in which the transaction takes place, the public school recognizes the land at CU100,000, (a cost of CU50,000 and a transfer of CU50,000) a reduction in its asset “cash” of CU50,000 and revenue from a non-exchange transaction of CU50,000 (the fair value of the increase in net assets recognized).

**Example 15: Proposed Legacy**

IG30. A 25-year-old recent graduate (transferor) of a public university names the university (recipient) as the primary beneficiary in her will. This is communicated to the university. The graduate is single and has an estate currently valued at CU50,000.

IG31. The public university does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a legacy is the death of the testator (transferor), which has not occurred.

**Example 16: Pledge – Telethon for Public Hospital**

IG32. On the evening June 30, 20X5 (reporting date) a local television station conducts a telethon for a public hospital (reporting entity). Television viewers telephone or e-mail promising to send donations of specified amounts of money. At the conclusion of the telethon, CU2 million has been pledged. The pledged donations are not legally binding on those making the pledge. Experience with previous telethons indicates approximately 75 percent of pledged donations will be made.

IG33. The public hospital reporting entity does not recognize any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge because it cannot exclude or regulate the access of the prospective donors to the economic benefits or service potential of the pledged resources, therefore it cannot recognize the asset or the related revenue until the donation is legally binding on the donor.

**Example 17: Fine**

IG34. A major corporation is found guilty of polluting a river. As a penalty it is required to clean up the pollution and to pay a fine of CU50 million. The company is in sound financial condition and is capable of paying the fine. The company has announced that it will not appeal the case.

IG35. The government (reporting entity) recognizes a receivable and revenue of CU50 million in the general purpose financial statements of reporting period in which the fine is imposed.

**Example 18: External Assistance Recognized**

IG36. National Government A (reporting entity) enters into an external assistance agreement with National Government B, which provides National Government A with development assistance grants to support Government A’s health objectives over a two year period. The external assistance agreement is legally binding on both parties. The agreement quantifies the development assistance receivable by National Government A, which measures the fair value of the development assistance at CU5 million.

IG37. When the external assistance agreement becomes legally binding, National Government A recognizes an asset (a receivable) for the amount of CU5 million, and revenue in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes legally binding. There are no conditions attached to this agreement that require the entity to recognize a liability.

**Example 19: Disclosure of In-kind Services not Recognized**

IG38. A public hospital (reporting entity) enlists the services of volunteers as part of an organized program. The principal aim of the program is to expose volunteers to the hospital environment and to promote nursing as a career. Volunteers must be at least sixteen years of age and are initially required to make a six-month commitment to work one four hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high-schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers nor would it engage employees to perform volunteers' work if volunteers were not available.

IG39. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the in-kind services provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

## Basis for Conclusions

BC1. This basis for conclusions gives the IPSASB's reasons for supporting or rejecting certain solutions related to the accounting for revenue from non-exchange transactions. It also identifies circumstances in which the requirements of this IPSAS depart from the requirements of IAS 20 and IAS 41 and the reasons for such departure. This Appendix does not form part of the Standard.

BC2. In 2002, the IPSASB (formerly the Public Sector Committee) initiated a project to develop an IPSAS that would establish requirements for the recognition and measurement of revenue from non-exchange transactions (including taxes and transfers). The IPSASB decided to enlist the assistance of a Steering Committee (SC) to develop initially an Invitation to Comment (ITC) which would analyse the issues related to revenue from non-exchange transactions and propose some initial solutions. The SC was composed of public sector financial reporting experts from a variety of countries and was chaired by an IPSASB member. The SC met four times and in January 2004 and prepared an ITC which was published in January 2004, with comments requested by June 30, 2005. In November 2004, the IPSASB analysed those comments and began drafting this Exposure Draft (ED) of an IPSAS. The IPSASB is of the view that the IPSAS that is developed from this project will enable governments and other public sector entities to appropriately recognize and measure revenue from non-exchange transactions, thereby serving the public interest by improving public sector financial reporting and making public sector operations more transparent and accountable.

### Introduction

BC3. This Exposure Draft (ED) is based on an assets and liabilities approach, which has been applied consistently. In developing this ED, the IPSASB considered the provisions of International Accounting Standard, IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and IAS 41, "Agriculture". The IPSASB is of the view that the assets/liabilities approach adopted in this proposed Standard ensures that consistent principles can be applied to all revenue from non-exchange transactions.

BC4. Governments and many other public sector entities derive the majority of their revenue from non-exchange transactions. These transactions include, principally, taxation, but also transfers. However, currently there is no IPSAS or other international accounting standard that adequately addressed these types of transaction from the perspective of a public sector entity.

BC5. The IPSASB, in developing this Standard, wanted to ensure that the requirements for recognizing and measuring revenue from non-exchange transactions are consistent with the conceptual principles underpinning the existing IPSASs. For this reason, this Standard is based on an "assets and liabilities" approach, whereby the recognition of revenue is driven by the previously determined definitions and by the criteria for recognition of assets and liabilities that have already been established. Where an entity recognizes an increase in net assets, that is not attributable to contribution from owners, the entity recognizes revenue in respect of that increase in net assets.

BC6. In developing this Standard, the IPSASB considered whether different provisions were required in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB concluded that there is no reason, in principle or in practice, to make a distinction between the two. Non-monetary assets raise additional measurement concerns, but these do not, of themselves, justify different financial reporting treatments.

## Compound Transactions

BC7. The IPSASB is of the view that, consistent with paragraph 55 of IPSAS 1, offsetting of items of revenue and expense should not be permitted. In some instances in the public sector, what appears to be a single transaction is, in substance, two or more separately identifiable transactions. In these cases, the IPSASB is of the view that the transaction's component parts should be distinguished and recognized separately. Distinguishing the component parts permits users of financial statements to make decisions about the effectiveness of government policy, and the extent of any cross-subsidies.

## Contributions from Owners

BC8. Many public sector entities receive inflows of resources from the entities that control them, own them or are members of them. In certain circumstances the inflow of resources will be designated as a "contribution from owners".

BC9. The IPSASB is of the view that for an inflow of resources to be classified as a contribution from owners, not only must the substance of the transaction be consistent with that classification; the transaction must be appropriately documented as a contribution from owners. A company that issues shares, whether in the public or private sector, will evidence a contribution from owners by issuing additional shares in respect of the contribution. Non-GBE public sector entities are not normally established as companies, and do not normally issue equity instruments, therefore the IPSASB decided to permit some contributions to be classified as net assets/equity provided some documentation is maintained in respect of contributions from owners in the public sector. The IPSASB therefore has provided examples of the additional documentation outlined in paragraph 16 to be maintained as evidence of a contribution from owners.

**Taxable Events**

BC10. The IPSASB is of the view that the earliest possible time to recognize assets and revenue arising from a taxation transaction is the point at which the past event that gives rise to control of the asset occurs. The IPSASB has designated this as the “taxable event”, which is the past event that the government, legislature or other authority has determined to be subject to taxation. Prior to this event occurring, the government has no legal or constructive right to receive economic benefits or service potential, and the taxpayer has no legal or constructive obligation to sacrifice economic benefits or service potential.

BC11. The IPSASB is of the view that the taxable event for property taxes is the passing of the date on which the tax is levied or the period for which the tax is levied if the tax is levied on a periodic basis. If legislation imposes a legal obligation on the government to use the tax for specific purposes, or return the taxes collected to the taxpayer, then a liability is also recognized. In some jurisdictions, tax law requires taxpayers to pay property (or other) taxes in advance of the taxable event. These advance payments are recognized as an asset and liability in the same way as any other advance, as is also noted in paragraph BC20 when the same conditions as those identified in paragraph BC20 apply.

**Expenses Paid Through the Tax System and Tax Expenditures**

BC12. The IPSASB is of the view that expenses paid through the tax system can be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements.

BC13. Expenses paid through the tax system are separately identifiable items that are available to persons or other entities irrespective of whether they pay taxes, or pay a particular tax. Some persons or entities will receive a payment through the tax system as a reduction in the amount of tax that they have to pay, others will receive it in another form, for example by check, cash or electronic payment, still others may receive payment through a third party which acts as an agent or intermediary. The IPSASB is of the view that in such circumstances, for those payments made through the tax system, the revenue and expense amounts are to be identified and recognized separately in the general purpose financial statements. This will mean that the amount of tax revenue an entity recognizes will be higher than the cash receipts, and the amount of expenses recognized will be higher than the cash payments. In these situations the entity and taxpayer are settling net in respect of two (or more) transactions.

BC14. "Tax expenditures" are preferential provisions of the tax law that provide taxpayers with concessions that are not available to others. These concessions are provided to promote or deter particular behavior. The IPSASB is of the view that tax expenditures are foregone revenue, consequently they are not expenses incurred by the entity. Examples of tax expenditures include deductions from taxable income for home mortgage interest or charitable donations.

BC15. The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the OECD for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[1] The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and does not conform to the IPSAS 1, "Presentation of Financial Statements," paragraph 55 requirement not to offset items of revenue and expense. The OECD is currently reviewing its requirements in respect of this issue.

## In-Kind Services

BC16. Many public sector entities are the beneficiaries of in-kind services that make a significant contribution to their financial performance. Some of these services are received as part of an external assistance agreement, whilst others are part of other programs such as community justice

[1] OECD, *Revenue Statistics* (Paris: OECD, 2000): p. 267, §20-21.

programs or community involvement programs. In-kind services, such as technical assistance, provided as part of an external assistance agreement make a valuable contribution to the operation of public sector entities and should be recognized in the general purpose financial statements where their fair value can be reliably determined.

BC17. In determining whether to recognize in-kind services as assets and revenue, entities need to ensure that the definitions of assets and revenue are met, and the criteria for recognition as assets are satisfied. Where an entity recognizes revenue in respect of in-kind services received, it also recognizes an expense in respect of the consumed economic benefits or service potential of those assets. In respect of services to be received in the future, the services would need to be the subject of a binding agreement, such as an external assistance agreement, for the entity to determine that it controls an asset and to be reliably measurable an to provide future economic benefits or service potential that satisfy the criteria for recognition.

BC18. From a financial reporting perspective, in-kind services provided by participants in community justice programs or community involvement programs are not fundamentally different to the technical assistance provided as part of an external assistance program. However, that the nature of these services may mean that their fair cannot be reliably determined, as is the case for services that are purchased. Community justice programs, for example, where offenders are required to perform community service rather than pay a fine or serve a period of incarceration may provide little in the way of future economic benefits or service potential to the recipient and consume significant resources to administer, however the benefit to the criminal justice system may not be measurable in monetary terms.

BC19. Public sector entities often have non-financial motivations for establishing community involvement programs. For example, a public hospital may establish an organized volunteer program for high school students who volunteer to visit or read to patients in order to expose the students to the hospital environment and encourage them to take up a career in nursing. These programs are not cost-free to administer, and the work performed by the volunteers may be more efficiently undertaken by a smaller number of paid employees, but the hospital system would lose a most effective opportunity to promote nursing as a career. In these circumstances the fair value of the services provided may be very close to zero, whilst the promotional opportunity is invaluable. Many public sector entities acknowledge the contribution of volunteers in the management discussion and analysis that typically accompanies general purpose financial statements. The IPSASB is of the view that quantifying the physical amount of in-services provided and making disclosures about them in the notes to the general purpose financial statements will complement the acknowledgment already made, in cases where the in-kind services do not satisfy the requirements for recognition.

**Advances**

BC20. In some circumstances, taxpayers may elect or be required to pay amounts to a public sector entity prior to a taxable event occurring. Similarly, a transferor may transfer resources to a public sector entity prior to the transfer agreement becoming binding on the parties or an appropriation becoming effective. The IPSASB is of the view that these prepayments are not fundamentally different to other prepayments and that a liability is to be recognized in respect of them until such time as the taxable event occurs, the transfer agreement becomes legally binding or an appropriation becomes effective.

**Present Obligations**

BC21. The IPSASB notes that transfer agreements and legislation in the public sector often impose stipulations on the recipient as to how or when they may use the assets transferred. The IPSASB has identified two types of stipulation: restrictions and conditions. The IPSASB is of the view that restrictions do not impose an obligation upon the recipient entity to sacrifice future economic benefits or service potential to satisfy the restriction; it therefore does not permit an entity to recognize a liability in respect of these stipulations.

BC22. As defined, conditions require the entity to return part or all of the transferred assets if the entity fails to satisfy the conditions of the transfer agreement or legislation. The IPSASB is therefore of the view that conditions do impose an obligation on the entity to sacrifice future economic benefits or service potential and that entities should recognize a liability in respect of conditions. The liability arises when the entity gains control of the asset, not when the condition is breached. This is consistent with the approach taken in respect of other types of transaction, accepting control of the asset means accepting the obligation to sacrifice future economic benefits or service potential to satisfy the condition.

BC23. The IPSASB acknowledges that transfer agreements and legislation can be very complex, particularly where very large sums of money or very valuable non-monetary assets are transferred. In some cases, the entity may be required to recognize a legal obligation under IPSAS 19, “Provisions, Contingent Assets and Contingent Liabilities” in respect of a transfer that would not satisfy the liability recognition requirements of this Standard.

## Measurement of Liabilities

BC24. Where an entity recognizes a liability in respect of an inflow of resources that liability will initially be measured at an amount equal to the inflow of resources, unless there is compelling evidence that a greater or lesser amount is more appropriate. This is because the breach of a condition will render an agreement void, requiring the entity to return to the transferor any resources received. The IPSASB is of the view that this approach is consistent with the definitions of asset and liabilities.

Australian comments
**IPSASB Non-Exchange Transactions Drafting Sub-Committee**
**May 2005**

## General Comments

We generally support the draft ED on "Revenue from Non-exchange Transactions (Including Taxes and Transfers) and Contributions from Owners" and the way it is drafted and acknowledge the considerable improvement since the draft ED was considered at the IPSASB March 2005 meeting. Specific comments on the draft ED and editorial comments are set out below. The more substantial comments are prefixed by "*".

### Specific Comments and Editorial Comments on the draft Exposure Draft

| | Paragraph | Comment |
|---|---|---|
| | Throughout | The phrase "person or entity" is used throughout the document (see for example, the definition of fine in paragraph 6). We suggest that the phrase should be "person or other entity" to acknowledge that a person is an entity. |
| | Background | We suggest the first sentence read "Many public sector entities…".<br><br>We suggest the last sentence read "… these issues have not been explicitly addressed by International Public Sector Accounting Standards…". |
| | Specific Matters for Comment – Question (b) | We suggest the question read "Require entities to…". |
| | Question (d) | The titles of IPSAS 16 and 17 should be included. |
| | Question (e) | We suggest the question read "Not permit the netting of expenses paid through the tax system (paragraphs 36-39) against taxation revenue. Instead, they must be recognised…". |
| | Question (h) | We suggest the question read "Require liabilities related to inflows of resources to be measured…". |
| | Question (i) | We suggest the question read "Provide entities…". |
| * | Question | We suggest that an additional question is asked in relation to paragraph 57. The question could be stated as "Paragraph 57 requires a non-exchange transaction that gives rise to the recognition of an asset also give rise to the recognition of revenue to the extent that a liability is not recognized. Are there any non-exchange transactions whereby it would be appropriate to initially recognise revenue even to the extent that a liability is recognized, resulting in the simultaneous recognition of an expense?" The question is motivated by the view held by some that although the transfer of a non-monetary asset with conditions gives rise to a liability (perhaps in the form of a social policy obligation), the liability should be recognized separately from the recognition of the revenue that arises from acquiring the asset. This is particularly so when the asset will be used to achieve the transferee's own objectives. |
| | Contents – Rubric box | The title of the draft ED is not complete. It should read "Revenue from Non-Exchange Transactions (Including Taxes and Transfers) and Contributions from Owners".<br><br>We note that the reference to IPSAS 3 includes the title that will be used once the IPSASB Improvements Project is finalised (rather than the current title of IPSAS 3). |
| | Para 4(b) | The current drafting implies that each type of transfer mentioned is mutually exclusive, however an in-kind service may be a type of donation, for example. To address this, we suggest that this paragraph read "Transfers, including grants, fines and donations, whether cash or non-cash, including in-kind |

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| Paragraph | Comment |
|---|---|
| | services". |
| * Para 6 | Definition of condition – We believe that commentary is needed to clarify that conditions must be of substance, otherwise all transfers with a condition attached (whether or not they are substantive conditions) will be recognised initially as a liability in accordance with paragraph 48(b). Also see comments on paragraph 51. |
| Para 6 | Definition of fine – The definition of fine refers to a "convicted person or entity". In Australia, when statutory fines (such as on the spot fines or parking infringements) are issued, a person or entity is not "convicted" (in an Australian context the word "convicted" implies someone has been tried and found guilty). Statutory fines appear to unintentionally fall outside the definition of "fine" (although paragraph 45 implies that statutory fines are in substance fines). We suggest that the definition reads "… that requires the person or other entity that has breached the law to sacrifice…". |
| Para 6 | Definition of restriction – the last line refers to a "donor", however, in the definition of "condition", the term "transferor" is used. We suggest that the term "transferor" is used consistently. |
| Para 6 | Definition of tax expenditure – We suggest that the definition is changed to "Tax expenditures are preferential provisions of the tax law that provide all or some taxpayers with concessions that are not available to other taxpayers or non-taxpayers.". |
| Para 6 | Definition of taxes – We suggest removing the phrase "from other individuals or entities," so that the definition becomes "…received or receivable by public sector entities in accordance with…". We are concerned that the reference to "other … entities" may be misinterpreted to mean entities other than public sector entities. |
| Para 7 | We suggest the last sentence is changed to "…an exchange component and a non-exchange component which are recognised separately.". |
| Para 9 | We suggest the first sentence read "Revenue comprises inflows of economic benefits or service potential received and receivable by the entity which results in an increase in net assets." |
| Para 9 | The 7th line should read "…on behalf of the principal do not result…". |
| Para 11 | We suggest the first sentence is split into "… the access of others to benefits of those resources. To the extent a liability associated with the asset transfer is not recognised, the entity recognises revenue."<br><br>The end of the second sentence refers to "… the transaction gives rise to revenue, rather than as an agent transaction" and thereby inappropriately does not address the possibility that the transaction gives rise to a liability. |
| Para 14 | We suggest the second sentence read "…any contributions from owners are accounted for first." |
| Para 17 | We suggest that the second sentence read "…is clearly that of a loan or another kind of liability or revenue, the entity…". |
| Para 20 | We suggest that the first sentence reads "… an exchange of approximately equal value" to be consistent with the definition of exchange transaction in paragraph 6. |
| Heading above para 29 | We believe that "Taxes" is a subset of the section on "Recognition of Assets" and should be included as a lower level heading. We note that this will have consequential effects on subsequent headings/subheadings and in the Table of Contents. |
| Para 31 | We suggest that the first sentence read "… but they have a number…".<br><br>We suggest that the last sentence read "… or entities breaching the law.". |

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| | Paragraph | Comment |
|---|---|---|
| * | Para 32(f) / IG11, IG12 | We are concerned that the reference to a "date on which the tax is levied" may be interpreted as giving rise to recognition of property taxes before the taxable event of the commencement of the period to which the taxes relate. We are also concerned that this may have implications for recognition of property taxes paid in advance. We believe this situation is also unclear in Example 6 (paragraphs IG11 and IG12) of the Implementation Guidance which only considers the situation when the taxable event occurs during the reporting period. |
| * | Para 33 | We are concerned that the rationale for recognising a liability ("because if the taxable event does not occur, the taxes paid will be refunded") is inconsistent with the probable recognition criterion for liabilities. Accordingly, we believe that the rationale should be changed to be consistent with the statement in BC19 that "prepayments are not fundamentally different to other prepayments and that a liability is to be recognised in respect of them until such time as the taxable event occurs.". Also see paragraphs 48(a) and 50. That is, we believe that a stronger rationale for treating taxes paid in advance as giving rise to the recognition of liabilities is that the transaction is in effect an exchange transaction.<br><br>We suggest that the second sentence read "… the liability is discharged and revenue is recognised." |
| | Para 34 | We suggest that the second sentence read "… take account of factors such as:". |
| | Para 36 | This paragraph mixes balance sheet items (taxation receivable) with income statement items (expenses paid through the tax system). We believe that the paragraph should refer to only balance sheet or only income statement items. If the paragraph is amended to refer to only income statement items, it may be more appropriate to move it to around paragraphs 57-60. |
| | Heading above para 40 | Consistent with our comments above relating to the heading above para 29, we believe that "Transfers" is a subset of the section on "Recognition of Assets" and should be included as a lower level heading. |
| * | Para 48(a) | See comments on paragraphs 33 and 50. |
| * | Para 48(b) | We believe that paragraph 48(b) needs to refer to a substantive condition – not simply one of form (also see our comment on the definition of condition in paragraph 6). It is not clear whether this is the case from the current drafting.<br><br>We note that paragraph 48(b) appears inconsistent with the second sentence in paragraph 54 and the IPSASB decision made at its March 2005 meeting that there is only a rebuttable presumption for the recognition of a liability for non-exchange transactions with conditions. An example when the presumption would be rebutted is when assets are transferred on condition that the transferee obtains matching funds from another entity. |
| | Para 48(c) | We believe that paragraph 48(c) needs to be clearer. We note that there could be situations when there are multiple stipulations (involving both conditions and restrictions), and the current drafting would cause confusion on the correct requirements. In this circumstance, because a condition exists, paragraph 48(b) requires a liability to be recognised. However, because a restriction exists, paragraph 48(c) prohibits the recognition of a liability. We suggest that paragraph 48(c) should read "Not recognize a liability in respect of a restriction **alone**". |
| * | Para 50 | See our comments on paragraphs 33 and 48(a). Furthermore, we question whether it is necessary to make the same point 3 times in the document. |
| * | Para 51 | Also see our comments on paragraph 6 (definition of condition) |

**Australian comments**
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**May 2005**

| | Paragraph | Comment |
|---|---|---|
| | | We suggest that the paragraph is drafted incorporating the sentiment in paragraph 4.44 from the Invitation to Comment to read:<br><br>"An entity analyses any and all stipulations attaching to an inflow of resources, to determine whether those stipulations impose a condition or restriction. The mere inclusion of a condition in a stipulation is in itself not sufficient for a liability to be recognized when the entity gains control of the asset. To satisfy the criteria for recognition as a liability an outflow of resources must be probable. In determining whether a liability in respect of a condition should be recognised in respect of stipulations relating to the provision of goods and services or the acquisition of assets, the stipulations will need to specify matters such as:<br>(a) the nature and quantity of the goods and services to be provided;<br>(b) the nature of assets to be acquired;<br>(c) the location and characteristics of the recipients of any goods and services; and<br>(d) the periods within which the provision of goods and services is to occur<br>and be subject to an acquittal process and, if failure to satisfy the condition has occurred in the past, the right of return of the asset has been exercised."<br><br>Alternatively, paragraph 54 could be expanded to incorporate the same sentiment. |
| * | Para 53 | This paragraph appears consistent with paragraph 48(b) (note comments above), but inconsistent with paragraph 54. |
| * | Para 63 | This paragraph appears consistent with paragraph 48(b) (note comments above), but inconsistent with paragraph 54. |
| | Para 69 | The last sentence should read "… in accordance with this Standard shall be disclosed.". |
| | Implementation Guidance | In a number of paragraphs e.g. IG4, IG6, IG8 and IG10 reference is made that the timing to recognise a transaction is "or as soon as it can reliably measure the assets". We suggest this is changed to read "or later, as soon as it can reliably measure the assets" because the current wording could be misinterpreted as implying that if a reliable measurement can be done before the event takes place, the transaction should be recognised at that point in time. |
| | IG17 | We suggest the first sentence read "…assets when it obtains control…".<br><br>We do not believe that the words in the second sentence "spend money only according to the approved budget" are strong enough because they do not necessarily convey the message that there need to be substantive conditions with an acquittal process. (See our comments on paragraph 51 above) |
| | IG27 | We believe that in this example implies a form over substance approach with the specific reference to "When it receives the letter and documentation". We believe that there may be circumstances in which a binding agreement is entered into (e.g. a phone call or formal meetings regarding the debt forgiveness) before the formal documentation is received, and accordingly we believe that the transaction should be recorded at that point in time. |
| | IG39 | We suggest that the third sentence read "…concludes that it cannot reliably measure the fair value…". |
| | Basis for Conclusion | The introductory comments should also refer to IAS 41.<br><br>We note that the draft ED deviates from the usual IPSASB approach to |

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| Paragraph | Comment |
|---|---|
| | providing a separate section on the comparisons with IASB standards. We agree with effectively including a partial comparison in BC 1-3 of the Basis for Conclusions. However, we believe that the IPSASB should also include a full comparison of the requirements of the ED with IAS 20 and IAS 41 as a separate section in the ED. It is particularly useful for those jurisdictions adopting sector neutral standards. |
| BC1 | We suggest that the last sentence read "… that the assets / liabilities approach ensures…". |
| BC2 | We suggest that the first sentence read "Governments and many other public sector entities…". |
| BC8 | We believe that the focus of the third sentence is incorrect. We believe that the sentence should read "… therefore the IPSASB decided to permit some contributions to be classified as equity provided there was some documentation maintained…". |
| BC11 | We suggest that the last line read "… recognised separately from revenue in the general purpose financial statements.". |
| BC14 | We note that BC14 refers specifically to the OECD and that many constituents of the IPSASB are not in OECD member countries. While supporting retention of the references to OECD, we suggest that reference is also made to the IMF.<br><br>We suggest the last sentence read "The IPSASB notes that the OECD is currently…". |
| BC15 | We suggest that the last sentence read "…value of these services is reliably measurable…". |
| BC16 | We suggest that the last sentence read "… however the IPSASB is of the view that the fair value of in-kind services…". |
| * BC21 | We believe the last sentence is inconsistent with the IPSASB decision that a rebuttable presumption exists for the recognition of a liability for non-exchange transactions with conditions. Also see our comments on paragraphs 48(b), 53 and 63. |
| * BC23 | We are concerned that the second sentence places too much emphasis on the obligation to repay as giving rise to the liability. We note that repayment may not be probable and, therefore, conceptually no liability would be recognised for the possibility of repayment. Our understanding is that the liability is to fulfil the condition or repay and therefore it is probable that the entity will sacrifice future economic benefits or service potential in either fulfilling the condition or repaying. Accordingly, a liability should be recognised.<br><br>We suggest that the tail end of the last sentence is removed such that the last sentence read "The IPSASB is of the view that this approach is consistent with the definitions of assets and liabilities.". We believe that removing the tail end of the last sentence avoids the implication that non-exchange transactions should be accounted for in the same way as exchange transactions, irrespective of the assets and liabilities approach. |

**Date:** **26 May 2005**

**To:** **Members of the IPSASB Non-exchange Revenue Drafting Sub-Committee**

**From:** **Greg Schollum**
**Simon Lee**

**Subject:** **Comments on draft ED Revenue from Non-Exchange Transactions and Contribution from Owners**

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Thanks for the opportunity to comment and for the work undertaken to date. Overall, we think the draft ED is an improvement from the draft presented at the last meeting. However, we feel that there is room for further improvement as set out below.

**General Comments**

- *Structure of the ED*

In our view, the early sections of the ED need to establish and explain the basic principles governing the recognition of non-exchange revenue and establish a map for the rest of the ED – that is the "asset and liability" approach. The flow chart should illustrate the approach and we would like to see the document structured as follows:

- Does the inflow result in a recognisable asset/reduction in a liability?
- Does the inflow represent a contribution from owners?
- Does the inflow arise from an exchange or a non-exchange transaction?
- As a result of recognising the asset/reduction of a liability, does the entity have an obligation that gives rise to a recognisable liability?
- If, since recognising the asset/reduction of a liability that gives rise to a recognisable liability, has the entity satisfied in whole or in part, the recognisable liability?

The first question relates to whether the inflow of resources meets the definition and recognition criteria of an asset (decrease in liabilities). On reflection we consider that this must precede all other considerations. If there is no recognisable asset/decrease in liabilities there is no revenue and no contribution from owners. (In other words, if there is no debit you don't need to worry about the credit!)

The existing discussion in the ED regarding whether recognition of the asset/reduction of a liability gives rise to a recognisable liability establishes a principle. This could be illustrated with a discussion of conditions and restrictions.

In a number of places the ED talks around a subject without either setting rules or principles. Paragraphs 9-13 are an example. There is no black letter requirement here. These paragraphs discuss the principal agent distinction but do not provide criteria to differentiate, and then make a number of statements that are likely to be contested in a number of jurisdictions. For example - "Taxation revenue arises only for the government that imposes the tax, and not for other entities." A consequence of this would be that in New Zealand Accident Compensation Corporation (ACC) levies would not appear in ACC's financial statements as they are set by the Cabinet.

- *Level of Explanation in the ED*

At the last meeting it was suggested that much more material from the ITC should usefully be incorporated into the draft ED.

In our view, it may be useful to review the ITC to check that any relevant paragraphs are included in the ED.

- *Government Business Enterprises*

It may be necessary for the IPSASB to consider its strategy for GBEs within this standard. It would be unfortunate if transfers are accounted differently by GBEs and other public sector entities. We note that the IASB is planning to issue a revised IAS 20 this year. This may influence constituents’ views on the approach proposed in the ED. We suggest that this be acknowledged in the ED or the accompanying material.

**Specific Comments**

- *Contributions from Owners*

At the last meeting it was agreed that the term “contribution from owners” would not be amended in the ED. If the established definition of a contribution from owners is to be reconsidered it should therefore be done so in a separate project. Contribution from owners is relevant to the ED only to the extent that it is referred to in the definition of revenue and, in our view, the established definition of contribution from owners should be utilised in this ED.

The standard is intended to address Accounting for non-exchange revenues. The definition of contribution from owners impacts on other issues, not only revenue (non-exchange or exchange). As a result, we do not agree with the proposal to extend the scope of the standard to address contributions from owners. We note however, that based on the current definition of “contributions from owners” endowments would often meet the definition. Also the last two words "... or redeemed." could be problematic. If they can be redeemed surely they are a liability.

We also do not agree with the proposed change in title. The proposed title gives the impression that contributions from owners generate revenue.

- *Paragraph 1, last sentence*

We found this sentence difficult to understand. This in part reflects our concerns about extending the scope of the ED to capture "contributions from owners". We suggest that it be revised. We also suggest that references to "contributions from owners" be removed from paragraph 2 and from the title to the ED. (We note that the IPSASB never agreed to extend the scope of the standard.)

- *Definition of a condition (paragraph 6)*

The definition is still narrowly focussed and does not relate clearly to the liability definition. We suggest the following:

> A condition on a non-exchange transaction is a stipulation that imposes a present obligation on an entity to sacrifice future economic benefits if the transferred assets are not deployed as specified, or if a specified future event occurs or does not occur, and therefore meets the definition of a liability.

- *Definition of Restriction (paragraph 6)*

The definition is still narrowly focussed and does not relate clearly to the liability definition. As we understand the intention of the draft ED, 'conditions' and 'restrictions' are mutually exclusive and were the only two subsets of 'stipulations' that could exist. However, there seem to be two dimensions in the definition and, therefore, four possible results:

- deployment specified - refundable, then condition;
- deployment specified - not refundable, then restriction;
- specified future event - refundable, then condition; and
- specified future event - non-refundable, presumably a restriction but the definition wording doesn't cover it.

We suggest the following:

> A restriction is a stipulation that limits or directs the purposes for which a transferred asset may be used, but does not impose a present obligation on an entity to sacrifice future economic benefits if the transferred assets are not deployed as specified or if a specified future event occurs or does not occur and therefore does not meet the definition of a liability.

- *Definition of stipulation (paragraph 6)*

The definition of stipulation should link to the definitions of restriction and condition. As currently drafted the definition of a stipulation includes only those items that create liabilities. For example, if it is a term used in legislation or a legally binding agreement – won't this always be a condition/liability?

Is a definition of stipulation needed? If a definition is needed we suggest:

> A stipulation is a term limiting or directing the purposes for which a transferred asset can be used and are expressed as conditions or restrictions.

- *Definition of Taxes (paragraph 6)*

The definition of taxes seems some way removed from the GFS definition. We understand that it is different to where the TFHPSA is heading which may or may not be a problem (staff will be in a better position to judge).

- *Non-Exchange Revenues (paragraphs 7 to 8)*

The ED needs to deal with the border between non-exchange revenue and contributions from owners as this is a significant accounting issue in the public sector where ownership instruments are generally not well defined.

Para 7, 3rd sentence - entities don't exercise professional judgment, professionals do.

- *Revenue (paragraph 9)*

The first sentence states that revenue comprises the gross inflow and that the increase in net assets equals the gross inflow. The current wording implies that Net = Gross which sounds contradictory. This may be addressed by referring to equity as follows:

> Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity which results in an increase in net assets/equity, other than increases relating to contributions from owners. The increase in net assets/equity equals the gross inflow. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets/equity or revenue of the agent. Similarly, in a custodial or agency relationship, amounts collected on behalf of the principal and do not result in increases in net assets/equity for the collecting entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any amount received or receivable for the collection or handling of the gross inflows.

- *Paragraph 12* – We suggest you delete the last sentence as this is now covered above:

12. In the public sector many entities receive inflows of resources primarily from owners, either as transfers, loans or as contributions from owners. Where a binding loan agreement is in place the entity recognizes the inflow as a loan. ~~Revenue does not include contributions from owners.~~

- *Paragraph 14* – We suggest you amend as follows:

14. Revenue from non-exchange transactions is recognized when an entity's net assets increase, <u>other than from an increase relating to contributions from owners</u>. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed and any contributions from owners are dealt with first. Consistent with the approach set out in this Standard, entities will analyze each type of transaction to determine which elements of general purpose financial statements will be recognized as a result of the transaction. The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether to recognize revenue. The flowchart indicates that there are a number of steps to take before determining whether revenue is to be recognized, this Standard follows the structure of the flowchart. The interpretation of actual transactions is according to the requirements set out in paragraphs XX to XX, in particular the requirement to recognize revenue in paragraph XX and to measure revenue at fair value in paragraph XX.

- *Appropriations*

We would prefer that references to appropriations are removed from the ED. In para 17, for example "the appropriation becoming effective" - is used as a trigger of probability as if it were always the case. In our view, probability may occur sooner or later depending on the appropriation rules in the country. In the USA appropriations must be spent, in NZ they may be spent and frequently are not.

- *Paragraph 18* – We suggest the following amendment:

18. An inflow of resources embodying future economic benefits or service potential shall be recognized as a contribution from owners when:

    (a) the counter-party <u>has an ownership interest in the entity</u>; and

    (b) both parties agree that the inflow of resources is a direct contribution to the net assets/equity of the entity.

We suggest (c) is deleted and the following commentary is added:

> "for an inflow of resources to be recognized as a contribution from owners, the substance of the transaction must be consistent with that treatment. This would normally be evidenced by appropriate documentation."

> 19. In jurisdictions where such contributions are made to the net assets/equity of a public sector entity, they are to be evidenced by any of the items in paragraph XX and are recognized as contributions to net assets/equity in the statement of movements in equity and in the statement financial position.

- *The flow diagram page 22*

The diagram we think could be improved and should reflect the structure of the ED. Refer to the attached flowchart as a suggestion. (Not sure if our diagram totally works either! It tries to take an asset and liability approach – hence does not focus on non-exchange transactions. It also starts with the presumption that the existence of an asset (inflow of resources) is the key event).

- *Recognition of Assets (paragraphs 23 to 28)*

We suggest that these paragraphs be moved earlier in the draft ED – for example before paragraph 9.

This section needs to acknowledge that an inflow of resources may be in the form of a decrease in liabilities (e.g. debt forgiveness)

Paragraph 23(b) – delete "to the entity" as follows:

> (c) The fair value of the asset ~~to the entity~~ can be measured reliably.

Reference to "to the entity" is not consistent with the definition of fair value.

- *Separate section required for Measurement* – subheading above para 25 – also needs to refer to revenue.

- *Paragraph 27*

An announcement of an intention to transfer resources may create a constructive obligation. It may be appropriate to refer to IPSAS XX Provisions.

- *Paragraphs 29 to 47*

These paragraphs refer to specific examples of non-exchange revenues and should be included after the principles have been established.

- *Paragraph 29*

Paragraph 29 reads like a definition – should this be included in the definitions section? If it is retained this paragraph needs a fuller discussion about recognition of revenue from taxes:

> 29. Taxes shall be recognised when a taxable event gives rise to an asset.

- *Paragraph 31*. We are not clear of the purpose of this paragraph and question whether it is needed.

- *Paragraph 32 (c)* – delete "tax" after the second "services".

- *Taxes paid in advance (paragraph 33)*

Suggest paragraph be amended – there may be no requirement to refund the taxes – or there may be an option to offset this against another liability:

> Taxes paid in advance of the taxable event are recognized as an asset and a liability because if the taxable event does not occur, the government has an obligation to refund the taxes paid or to offset such taxes in advance against taxes due as a result of a subsequent taxable event. When the taxable event occurs the liability is discharged.

- *Paragraph 34 (e)* seems to send the wrong message. We suggest that this reworded as follows:

  "The stance of the jurisdiction's tax collection policies balancing compliance costs with revenue maximisation."

- *Paragraph 35 needs tidying*. The first three sentences start "In some rare cases... In many cases... However, there are exceptional circumstances..." covering essentially the same point does not work.

- *Expenses paid through the tax system and Tax Expenditures*

These two terms are very similar. We believe that it would be less confusing for users if they were delinked. We suggest that separate sections be developed to provide some space between these two concepts.

- *Amend paragraph 36*

Taxation revenue – not taxation receivable. Taxation receivable refers only to taxation that is owed – that is the taxable event has occurred but the tax has not been received. All tax revenue should be determined on a gross basis. Suggest that paragraph 36 is amended as follows:

> 36. Taxation revenue shall be determined before deducting expenses paid through the tax system.

- *Paragraph 38* - last line - "inflows or" could be usefully deleted.

- *Transfers paragraph 40*

Transfers give rise to revenue when an entity attains control of the inflow of resources.

- P*aragraph 42*

We note that the IASB is about to issue for comment a revised IAS 37. This proposes some changes to the definition of constructive obligations and incorporates to a certain extent the concept of promissory estoppel. It may be useful to consider this in the draft ED.

- *Paragraphs 43 and 44* appear to us to be the wrong way around with para 44 being the black letter paragraph.

- *Paragraphs 46 and 47* discuss in-kind services. However, it does not specifiy the accounting treatment. This section needs to state that the ED neither requires nor prohibits the recognition of revenue in relation to in-kind services. As currently drafted it is not clear what the ED is proposing.

- *Paragraph 48(a) to 48 (c)*

This paragraph appears to be a mix of a specific example in relation to taxes in advance and a specific example in relation to a transfer. In addition, this is the first time that the measurement of a liability as a result of a condition/taxes in advance is addressed. We suggest that a separate section be included earlier in the document regarding measurement of liabilities as a result of conditions.

We suggest that the sections relevant to taxes and transfers be located under the general section on taxes and transfers.

- *Paragraph 48*

This paragraph takes a very rules based approach. Taxes paid in advance should only be recognised as a liability if a government has an obligation to refund the taxes or to offset such advances against any future tax receivable. We suggest this para is amended as follows:

An entity shall recognize a liability in respect of a payment made in advance of a taxable event where the entity has an obligation to refund the tax or to offset taxes in advance against a taxes dues as a result of a future taxable event . The liability shall be measured at an amount equal to the amount recognized as an asset, unless the tax law clearly indicates that another amount is more appropriate.

- *If the definition of a restriction is amended as suggested above* – it is not necessary to include paragraph 48(c).

Para 48(b) is not consistent with the definition of a condition – because condition is defined too narrowly.

- *Paragraphs 49 – 56*

These paragraphs discuss the existence of a liability and form part of the conceptual basis for the standard. Accordingly, they should be located earlier in the ED in our view.

- *Paragraph 49*. We suggest a present obligation "includes a duty to act or perform a certain way that involves a future economic sacrifice."

- *Paragraph 54* quite rightly focuses on substance over form. This needs to be brought forward within the ED and its emphasis increased.

It is possible to take the view that a condition will not give rise to a liability until it becomes probable that the condition will not be met. For example a transferor provides a grant to a recipient on the condition that the recipient uses the funds to assist the homeless.

Under one view an entity has an obligation until the funds are spent to assist the homeless.

Another view is that the entity has no recognisable obligation until it becomes probable that the entity will not meet the conditions.

The two views are fundamentally different.

- *Paragraph 56* is another example of a paragraph that talks around the issue and is not particularly helpful.

- *Recognition and Measurement of Revenue from Non-Exchange Transactions (paragraphs 57 – 61)*

These paragraphs form part of the conceptual basis for the standard and need to be located earlier in the ED. They also need to be amended as follows:

57. An inflow of resources recognized as an asset, <u>other than inflows relating to contributions from owners</u> shall be recognized revenue, except to the extent that a liability is also recognized.

**Implementation guidance**

- Examples 2 and 3 are very similar. Are both needed?
- IG 4, IG 6, IG 8 – all refer to "reliably measure the assets". Should this be reliably measure the tax receivable (more specific)
- IG 19 – should refer to "conditions" – not stipulations

**Basis for Conclusions**

- BC 8 – seems to be saying that substance is important and that the documentation is another element that needs to be considered over and above the substance. We suggest this paragraph be amended as follows:

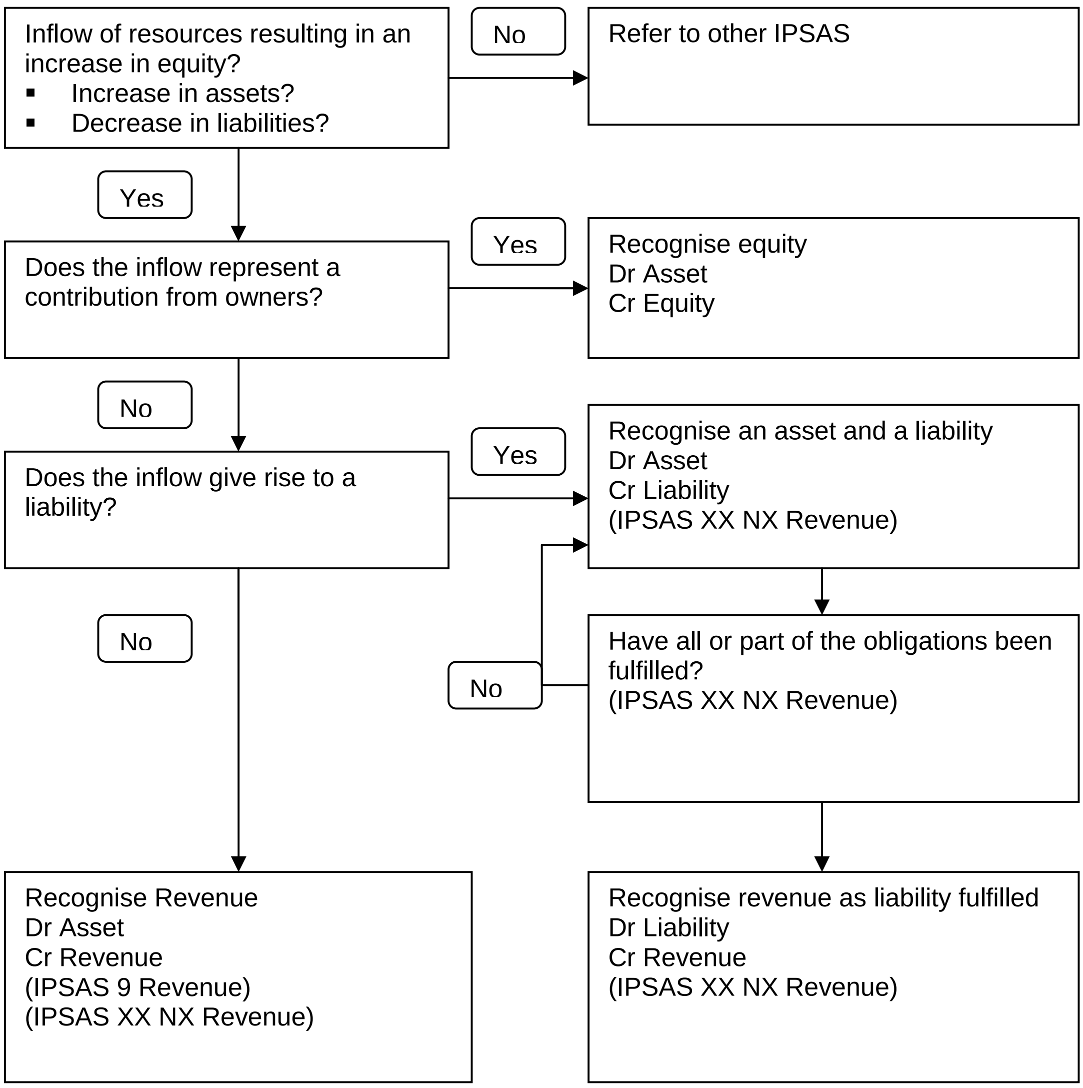
  The IPSASB is of the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification. This is normally evidenced by appropriate documentation.

- BC 15 – somewhere needs to state that the draft standard does not require – nor prohibit recognition of in-kind services.

- BC 16 – last sentence "…however the IPSASB is of the view that the fair value …"

- BC 22 – implies that there may be a difference between a liability under IPSAS 19 and a liability under the proposed ED. This is unclear. We would not expect that there would be a difference between the definition and recognition of liabilities between the proposed ED and IPSAS 19. The point being made here needs to be more clearly explained.

## Recognising Revenue



# Comments on Draft ED – Norway

## Definitions

**6. The following terms are used in this Standard with the meanings specified:**

**Taxes are economic benefits compulsorily received or receivable by public sector entities from individuals or entities, in accordance with legislation established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.**

Deleted: other

Deleted: or other laws,

**Transfers are non-exchange transactions other than taxes.**

**Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards and are reproduced in the Glossary of Defined Terms published separately.**

### Non-Exchange Transactions

8. Entities frequently receive discounts or other reductions in the price of assets for a variety of reasons. These reductions in price do not mean that the transaction is a non-exchange transaction. In many instances market forces or regulations mean that a public sector entity will pay a lower price than other market participants. Notwithstanding the discount, in these cases the exchange between the parties is at approximately fair value.

Comment: I have problems understanding this, but can't say that it does not happen like this?

### Revenue

9. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity which results in an increase in net assets, the increase in net assets equals the gross inflow. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. Similarly, in a custodial or agency relationship, amounts collected on behalf of the principal and do not result in increases in net assets/equity for the collecting entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the part of the amount received or receivable for the collection or handling of the gross inflows.

Deleted: amount

Deleted: any

## Non-Exchange Transactions

22. There are a further group of transactions where the entity provides some consideration that does not approximate the fair value of the resources received. In these transactions the entity determines whether there is a

combination of exchange and non-exchange transactions, each component of which is dealt with separately. For example, where an entity purchases land for half its fair value, it may determine that it has purchased a half-share in the land and received a transfer for the remaining share.

**Comment:** I would not see this as buying only the half-share, but as a transfer or grant for half the price.

23. **An inflow of resources from a non-exchange transaction shall be recognized as an asset when and only when:**

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(a) **It meets the definition of an asset;**

(b) **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 asset to the entity can be measured reliably.**

**Debt Forgiveness and Assumption of Liabilities**

43. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In other circumstances, a public sector entity's controlling entity may assume responsibility to satisfy the controlled entity's liabilities. For example a government may assume employee entitlement liabilities recognized by a government department. In such circumstances, the former debtor recognizes an increase in net assets because a liability it previously owed is extinguished.

44. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

**Comment:** It has to be discussed whether this is a revenue or a contribution from owners.

**Fines**

45. Fines are penalties imposed upon an entity by a court or a quasi-judicial body for violations of laws or administrative rules. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is, in substance, a fine. In some jurisdictions law enforcement officials are able to impose fines on individuals considered to have breached the law, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Fines normally require an entity to transfer a fixed amount of cash to the government. Fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 23.

**Comment:** What if the one that was fined, is insolvent? Should it also then be recognized as revenue?