

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 19–22, 2018

From: Paul Mason and Joanna Spencer

Agenda Item 10

For:

☐ Approval

☒ Discussion

☒ Information

REVENUE – UPDATE OF IPSAS 23

Project summary	<p><i>Revenue</i></p> <p>The aim of the project is to develop one or more IPSASs covering revenue transactions (exchange and non-exchange) in IPSASs.</p> <p>The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9, <i>Revenue from Exchange Transactions</i>; IPSAS 11, <i>Construction Contracts</i>; and IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>.</p>	
Meeting objectives	Topic	Agenda Item
Project management	Instructions up to March 2018 Meeting	8.1.1
	Decisions up to March 2018 Meeting	8.1.2
	Revenue Road Map	8.1.3
Decisions required at this meeting	Social Contributions	10.2.1
	Services In-kind	10.2.2

Social Contributions**Questions**

1. The IPSASB is asked to provide guidance to staff on the additional guidance on social contributions to be included in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Detail

2. In developing Exposure Draft (ED 63), *Social Benefits*, the IPSASB agreed that social contributions should not be included in the ED, but should instead be accounted for in accordance with IPSAS 23. The only exception to this is where an entity uses the insurance approach included in ED 63.
3. ED 63 included amendments to IPSAS 23 to clarify that social contributions should be accounted for using the principles in IPSAS 23, but did not provide any more specific guidance on how to account for social contributions. The IPSASB agreed to develop more specific guidance as part of the *Revenue* project.

Accounting Principles

4. In agreeing to develop more specific guidance on social contributions, the IPSASB agreed that the principles applied to accounting for social contributions should be the same as those that applied to accounting for taxation revenue. This approach is also a common approach to recognizing revenue from social contributions amongst governments who recognize the revenue on an accrual basis.
5. An entity should recognize revenue from a social contribution when the event that establishes the entity's right to receive that social contribution has occurred. Many social contributions are employment related, with social contributions being payable each time a salary or wage is paid. The event that establishes the entity's right to receive that social contribution is the equivalent of the taxable event referred to in IPSAS 23.
6. Applying the same principles to accounting for social contributions and accounting for taxation revenue will avoid any boundary issues, for example where it is unclear whether a transaction is a social contribution or taxation.
7. Draft amendments to the core text in IPSAS 23 are provided at Appendix A to this Agenda Item. Staff will develop additional guidance and examples to support this text once the IPSASB has confirmed the approach to accounting for social contributions.

Decisions required

8. The IPSASB is asked:
 - (a) To confirm that the principles applied to accounting for social contributions should be the same as those that applied to accounting for tax revenue; and
 - (b) To provide any comments on the draft guidance for social contributions provided at Appendix A to this Agenda Item.

Appendix A to Agenda Item 10.2.1

Draft Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions* (*Taxes and Transfers*)

Paragraphs 7, 106, 107 and 113 are amended and paragraphs 28A–28C, 75A–75J and 124G are added. Additional headings are added before paragraphs 28A, 75A, 75D and 75E. New text is underlined.

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Definitions

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

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Social contributions are contributions or levies, paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the risks, to finance a specific social benefit scheme, and where the contributions or levies received are restricted to providing that social benefit.

The social contribution event is the event that the government, legislature, or other authority has determined will give rise to a requirement to pay social contributions.

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Social Contributions

28A. Many governments and other public sector entities impose social contributions in order to finance social benefits. Social contributions are defined in paragraph 7 as contributions or levies, paid by or on behalf of either the potential beneficiaries or those whose activities create or exacerbate the risks, to finance a specific social benefit scheme, and where the contributions or levies received are restricted to providing that social benefit. Social contributions differ from taxation as they are imposed in order to finance specific social benefits.

28B. Social contribution laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Social contribution laws and regulations (a) establish an entity's right to collect the social contribution, (b) identify the basis on which the social contribution is calculated, and (c) establish procedures to administer the social contribution, that is, procedures to calculate the social contribution receivable and ensure payment is received. Social contribution laws and regulations may also establish a link between the social contributions receivable and the social benefits payable.

28C. Advance receipts, being amounts received in advance of the social contribution event, may also arise in respect of social contributions.

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Social contributions

75A. An entity shall recognize an asset in respect of social contributions when the social contribution event occurs and the asset recognition criteria are met.

75B. Resources arising from social contributions satisfy the definition of an asset when the entity controls the resources as a result of a past event (the social contribution event) and expects to receive future economic benefits or service potential from those resources. Resources arising from social contributions satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition.

75C. Revenue from social contributions arises only for the entity that imposes the social contribution (the principal), and not for other entities that are acting as agents.

Social Contribution Event

75D. Similar types of social contributions are levied in many jurisdictions. The reporting entity analyzes the law in its own jurisdiction to determine what the social contribution event is for the various social contributions levied. Examples of social contribution events include:

- (a) Income being earned (where social contributions are based on earnings, for example social contributions in respect of unemployment benefits which are based on a percentage of earned income);
- (b) The passage of time (where social contributions are based on time, for example monthly payments);
- (c) The purchase of goods or services are purchased (where social contributions are in the form of a levy, for example social contributions in respect of injury benefits that are based on a percentage of fuel sales); and
- (d) The point at which a contributor makes, or elects to make, additional contributions (where a social benefit scheme permits beneficiaries to make additional, voluntary contributions in return for increased benefits should the social risk occur).

Measurement of Assets Arising from Social Contribution Transactions

75E. Paragraph 42 requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from social contributions are measured at the best estimate of the inflow of resources to the entity. An entity shall develop accounting policies for the measurement of assets arising from social contributions that take account of both the probability that the resources arising from social contributions will flow to the entity, and the fair value of the resultant assets.

75F. Where there is a significant separation between the timing of the social contribution event and receipt of the inflow of resources, an entity may measure assets arising from social contributions by using, for example, statistical models based on the history of collecting the particular social contributions in prior periods.

- 75G. When an inflow of resources from social contributions is not expected to be received wholly before twelve months after the end of the reporting period in which the asset is recognized, the asset shall be discounted to reflect the time value of money.
- 75H. Measuring assets and revenue arising from social contributions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent reporting periods as being due from contributors in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3.
- 75I. Assets arising from social contributions scheme shall be reduced as inflows of resources are received. Any difference between the inflow of resources received and the asset arising from social contributions previously recognized is recognized in surplus or deficit, in accordance with IPSAS 3.
- 75J. Where an asset is discounted in accordance with paragraph 75G, the asset is increased and interest revenue recognized in each reporting period until the asset is received, to reflect the unwinding of the discount.

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Disclosures

106. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**
- (a) **The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:**
 - (i) **Taxes, showing separately major classes of taxes;**
 - (iA) **Social contributions, showing separately major classes of social contributions;**
and
 - (ii) **Transfers, showing separately major classes of transfer revenue.**
- ...
107. **An entity shall disclose in the notes to the general purpose financial statements:**
- ...
- (c) **For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax;**
 - (cA) **For major classes of social contribution revenue that the entity cannot measure reliably during the period in which the social contribution event occurs, information about the nature of the social contribution;** and
 - (d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.**
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113. As noted in paragraphs 68 and 75E, in many cases an entity will be able to reliably measure assets and revenue arising from taxation transactions and social contribution transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is

unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event or social contribution event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation or social contribution that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event or social contribution event occurs. These disclosures assist users to make informed judgments about the entity's future revenue and net asset position.

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Effective Date

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124G. Paragraphs 7, 106, 107 and 113 were amended, and paragraphs 28A–28C and 75A–75J were added, by [draft] IPSAS [X] (ED XX), [Amendments to IPSAS 23], issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY.

Services In-kind**Questions**

1. The IPSASB is asked to provide direction to staff about developing requirements for accounting for services in-kind¹.

Detail

2. Currently IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)* allows but does not require services in-kind to be recognized as revenue and as an asset. Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* cited accounting for services in-kind as an IPSAS 23 application issue because services in-kind are highly significant for a number of entities, particularly some international organizations and the option regarding recognition of such services impairs comparisons between entities.
3. Accordingly, the CP included SMC 6 to garner respondent views on how to account for services in-kind. Three options were proposed:
 - (a) Retain the existing requirements;
 - (b) Modify the requirement to require services in-kind that meet the definition of an asset and can be measured reliably to be recognized in the financial statements; and
 - (c) An alternative approach.
4. At the March 2018 meeting staff provided the Board with the feedback from the CP and noted that there was no clear preference from respondents on a preferred approach. As a consequence, the Board instructed staff to re-examine the responses, particularly those that were coded as 'response not clear' and to conduct desk research to determine the requirements of other standard-setters and also to investigate how not-for-profit entities (not restricted to the public sector) account for services in-kind.

Re-examination of Responses

5. Summarizing the responses discussed at the March 2018 meeting, 18% (7) respondents preferred retaining the existing requirements, 32% (12) respondents preferred requiring recognition of services in-kind if they met the necessary requirements for recognition in the financial statements, 24% (9) respondents suggested alternative methods, 5% (2) responses were not clear and 21% (8) respondents did not answer this SMC.
6. Staff reviewed the two comments letters that were classified as 'response not clear' - both stated:

¹ Services in-kind are described as – services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which service potential or economic benefits are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognized to reflect the consumption of these services in-kind.

In our jurisdiction, services in-kind are recognized only if they can be measured reliably. However, we haven't explored that issue further yet in the context of the Consultation Paper. The new phase in of the project will probably allow providing additional comments at a later stage.

7. Staff conclude that re-examining these two responses does not alter the number of responses in each category because:
 - (a) No preferred option was stated;
 - (b) 'measured reliably' is a requirement for recognition of any element in the financial statements; and
 - (c) The response does not indicate whether reporting of services in-kind in that jurisdiction are mandatory.
8. Expanding on the comments provided at the March 2018 meeting, of those respondents that preferred retaining the existing requirements (Option A) the following comments were made:
 - (a) The cost of obtaining information on the value of services in-kind received would outweigh the benefits received from reporting this information;
 - (b) Mandating recognition of services in-kind will require entities to establish systems and process to gather auditable information;
 - (c) The IPSASB could look at mandating disclosure on the nature and type of major classes of services in-kind received (rather than just encouraging) – this will improve financial reporting in this area;
 - (d) Because services in-kind are recognized and consumed immediately there is no impact on surplus or deficit and the statement of financial position on a net basis, therefore the argument regarding comparability may be minimal;
 - (e) There is difficulty in obtaining a reliable measurement, and even if only those services that would have been purchases are accounted for, judgement is needed to determine which types of services these are therefore the issue regarding comparability is not resolved;
 - (f) There may be difficulty in determining whether an entity has control (over an individual) for accounting purposes;
 - (g) Before mandating the recognition of services in-kind the IPSASB needs to provide more evidence of its usage across government jurisdictions and the need for further guidance in this area; and
 - (h) Services in-kind are important for some international organisations (i.e. Aid agencies, UN) but not so much other entities.
9. Of the respondents that favored Option (b) (modify the existing requirements), the following comments were made:
 - (a) Services in-kind can make up a significant portion of some entity's operating activity, not requiring measurement of this could considerably understate the size of the organizations operations and its significant to the economy for all stakeholders and decision makers;

- (b) Agree there may be measurement difficulties but recognizing only those services that can be measured in a way that meets the necessary requirements for reporting would result in useful information;
 - (c) Where services in-kind received do not meet the necessary criteria, the IPSASB could mandate disclosure about the nature and type of services received;
 - (d) Recognition of services in-kind received should be mandated for reasons of comparability and transparency;
 - (e) The materiality or significance of the services to the entity's operations must be considered;
 - (f) Recognition of services in-kind that enhance service delivery capacity is useful for accountability and decision-making purposes; and
 - (g) Agree that if the services in-kind would have been purchase they should be recognized.
10. Alternative approaches suggested by respondents in Option (c) included:
- (a) Services in-kind should be recognized if they meet the requirements in Option (b) and if obtaining the information is cost effective;
 - (b) Suggest only recognizing services in-kind delivered by traders or professionals, we note that the existing requirements are rarely applied in practice which might be a result of the practical difficulties in generating reliable information or the limited informational value of the information, this option may be a more practical accounting approach;
 - (c) User needs would be better met by disclosure of non-financial information. Increased transparency as to how reliant on volunteer services the public sector is would better facilitate policy decisions. This is particularly so for those entities where without volunteers governments may need to step in (e.g. ambulance, fire);
 - (d) Prescribing an alternative to record services in-kind at nominal value (symbolic value) of currency unity with detailed disclosures;
 - (e) Services in-kind are free and should not be accounted for in the general ledger therefore documented, explained and disclosed off balance sheet; and
 - (f) IPSASB should develop more specific guidance for the recognition and measurement of services in-kind.
11. As indicated above, there are many views on how services in-kind should be accounted for but staff consider the key issues raised are:
- (a) Cost/benefit of providing the information;
 - (b) Usefulness of the information for accountability and decision-making purposes;
 - (c) Significance to the entity;
 - (d) Potential loss of information if not provided;
 - (e) Transparency and comparability;
 - (f) Difficulties in measurement; and
 - (g) Difficulty in assessing whether an entity has control of the asset.

Desk research

12. Staff conducted limited desk research on both accounting requirements in various jurisdictions and the reporting of services in-kind by not-for-profit organizations, also in a number of jurisdictions.

Accounting requirements

13. Following are the prescribed accounting treatments for services in-kind² (other than IPSAS):

Australia – AASB 1058, *Income of Not-for-Profit Entities*

Requires the recognition of volunteer services by public sector entities³ as an asset or expense if:

- (a) The fair value of those services can be measured reliably; and
- (b) The services would have been purchased if they had not been donated.

Further, any not-for-profit entity (including those above) may elect to recognise volunteer services if the fair value of those services can be measured reliably whether or not the services would have been purchased if not donated.

Measurement is at fair value.

Canada – CPA Canada Handbook – Accounting (Part III), Section 4410, *Contributions*

Private sector not-for-profits - Recognition is optional where the fair value of the services supplied by a volunteer can be reasonably estimated and the services are used in the normal course of the entity's operations and would have otherwise been purchased.

Measurement is at fair value.

Columbia - Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*

Recognition is required where the services supplied by volunteers are either:

- (a) Being utilized to create or enhance a financial asset; or
- (b) Require specialized skills⁴, are provided by individuals possessing those skills and would have otherwise been purchased if not provided by donation.

Measurement is at fair value.

New Zealand (other than IPSAS) - Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)

Recognition is optional where the fair value of the services supplied by volunteers can be measured reliably and the entity has control over the services.

Measurement is at fair value.

² Services in-kind are also known as, volunteer services and contributed services.

³ Local governments, government departments, general government sector and whole of government.

⁴ Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen. Contributed services and promises to give services that do not meet the above criteria shall not be recognized.

An entity shall also provide descriptive information about its reliance on volunteer services and donated goods and services.

United Kingdom – Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Donated services and facilities that would otherwise have been purchased shall be measured at the value to the entity.

Measurement is at the value to the entity – the amount that the entity would pay in the open market for an alternative item that would provide a benefit to the entity equivalent to the donated item. Value to the entity may be lower than, but cannot exceed, the price the entity would pay in the open market for the item.

United States of America - FASB Accounting Standards Codification ASC 958-605-25-16

Recognition is required where the services supplied by volunteers are either:

- (a) Being utilized to create or enhance a non-financial asset; or
- (b) Require specialized skills, are provided by individuals possessing those skills and would have otherwise been purchased.

Measurement is at fair value. Where the services are being utilised to create or enhance a non-financial asset, the amount recognised can be the fair value of the asset or of the asset enhancement resulting from the service.

Reporting by not-for profit entities

- 14. Staff reviewed the financial statements of three large not-for-profit entities that would typically receive services from volunteers, to determine how they account for volunteer services.
- 15. **The American National Red Cross** – prepared in accordance with accounting principles generally accepted in the United States of America.

Year ended June 30, 2015

Contributed Services and Materials: Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would by typically purchased if not provided by donation. The Organization recorded contributed services revenue and related expense for the years ended June 30, 2015 and 2014 of approximately \$4 million and \$6 million respectively, mostly in support of the disaster services program.

- 16. **Oxfam Canada** – Year ended 31 March 2017 – prepared in accordance with Canadian Accounting Standards for not-for profit organizations

Volunteers contribute significant time per year to assist Oxfam in carrying out its service delivery activities. These contributed services are not recognized in the financial statements because of the difficulty associated with measurement.

17. **Marie Curie United Kingdom** - Year ended 31 March 2017 – prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Gifts in kind are valued at their realized amount, or the amount equivalent to an alternative commercial supply, and are included in the Consolidated Statement of Financial Activities when sold. No amounts are included for services donated by volunteers.

Staff summary and recommendation

18. Staff consider that the major issues for consideration that must be considered when developing accounting requirements are:
- (a) Cost benefit;
 - (b) Significance to the entity/users; and
 - (c) Ability to measure reliably.
19. Cost-benefit is one constraint on information addressed in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (The Framework) and as stated in paragraph 3.39 'Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information'.
20. As stated by respondents to the CP (see paragraph 8(b)), mandating reporting of services in-kind will require systems and process to gather the necessary information, this in itself is an added cost for that entity. In addition to developing information gathering process, other costs may include those associated with verifying, auditing, measuring and presenting the information in the financial statements. For some entities this extra cost may impose little gain for users.
21. However, a disadvantage of not providing information on services in-kind is that important information is not made available to users. This information may be particularly important if an entity is reliant on volunteer services so much so that its objectives may not be met if these services in-kind were not made available. Therefore staff consider that the significance to the entity or the materiality of the information is also an importance consideration to take into account when determining an appropriate accounting treatment for services in-kind. As stated in The Framework, information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's general purpose financial reports (GPFRs).
22. This leads into the third consideration, how to measure reliably. For services in-kind to be recognized on the face of the financial statements it will be necessary to attach a monetary value and the measurement of that value must be sufficiently relevant and be a faithful representation of what it purports to represent. Determining a reliable measure can be problematic for volunteer services because would an appropriate value be the value to the entity, the value of that volunteers 'normal' job or some other value. Staff note that those standard-setters that require the recognition of services in-kind only do so if those services would have been purchased if not donated and are therefore of the opinion that this requirement is to address the measurement difficulty.
23. Given that there is a lot of uncertainty around the reporting of service in-kind staff recommend retaining the existing requirements in IPSAS 23 (Option A) but adding extra guidance about when an entity should consider reporting service in-kind (i.e. if significant to the entity). In addition staff

are of the view that if services in-kind are not recognized on the face of the financial statements they should be disclosed in a manner that does not require a monetary value, for example in a narrative form such as number of volunteers x number of hours, this will give some indication to users the extent at which an entity is reliant on these services.

24. If the Board decides to proceed with Option B and mandating reporting of services in-kind, staff are of the view that these should be restricted to those services that would have been purchased if not donated. In addition other services in-kind received could be reporting on a voluntary basis providing they meet the qualitative characteristics of information included in GPFRs.

Question for the Board

25. Does the Board agree with the staff recommendation at paragraph 23 that the requirements for services in-kind should remain as currently required in IPSAS 23 but extra guidance be added about when an entity should considering recognizing services in-kind and in addition adding extra non-monetary disclosure requirements?