

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Washington D.C., USA

Meeting Date: March 12–15, 2019

From: Joanna Spencer

Agenda Item 11

For:

☐ Approval

☒ Discussion

☒ Information

REVENUE – IPSAS 23 UPDATE

Project summary	Revenue The aim of the project is to develop one or more IPSAS covering revenue transactions (exchange and non-exchange) in IPSAS. 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> .	
Meeting Objectives	Topic	Agenda Item
Project management	Decisions up to December 2018 Meeting	11.1.1
	Instructions up to December 2018 Meeting	11.1.2
	Revenue Project Roadmap	11.1.3
Discussion Items	Revenue – IPSAS 23 Update – EFRAG Discussion Paper	11.2.1
	Revenue – Updating IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	11.2.2
Other Supporting Items	EFRAG Discussion Paper <i>Non-Exchange Transfers: a Role for Societal Benefit</i>	11.3

DECISIONS UP TO DECEMBER 2018 MEETING

Date of Decision	Decision
December 2018	The Board decided to approve the scope of the draft Standard.
December 2018	The Board decided to replace the term, "Customer" with the broader term, "Purchaser".
December 2018	The Board decided to complement the definition of a binding arrangement by specifying criteria that must be met before an entity can apply the revenue recognition model to that binding arrangement.
December 2018	The Board decided to retain the criteria used in IFRS 15 for revenue transactions, which would be within the scope of IFRS 15.
December 2018	The Board decided that enforceability is key in determining under which IPSAS a transaction will be addressed.
December 2018	The Board decided that revenue from transactions that are not enforceable but which have intentions/expectations on how the resources are to be used is to be recognized when receivable and the entity is to communicate these intentions/expectations via enhanced display and or disclosure.
September 2018	The Board decided to accept the proposed "Amendments to Other IPSAS".
September 2018	The Board decided that legislation and the ability to reduce future funding should be included as potential enforcement mechanisms for the PSPOA.
September 2018	The Board decided to replace "commercial substance" with "economic substance".
September 2018	The Board decided to remove the term, "ordinary" and explore the scope to identify whether items such as gains on sale of property, plant and equipment, foreign exchange gains, and interest are within the scope of the draft Standard.
September 2018	The Board decided to retain the methods used to estimate stand-alone selling price and add explanatory text, stating that, where appropriate, the Expected Cost plus Margin approach is also applicable to goods and services that are provided on a cost-recovery basis.
September 2018	The Board decided to retain the terms, "Goods and Services".
September 2018	The Board decided to retain the terms, "Consideration" and "Exchange".
September 2018	The Board decided to replace the terms, "Contract Asset" and "Contract Liability" with the terms "Binding Arrangement Asset" and "Binding Arrangement Liability".
September 2018	The Board decided to use the term, "Binding Arrangement", which will encompass the terms, "Contract" and "Other Binding Arrangements".
June 2018	The Board decided that the requirements for accounting for revenue from social contributions should adopt the same principles as for taxation revenue.
June 2018	The Board decided that, in dealing with Category C revenue transactions, there are no major public sector issues that warrant departure, after considering the alignment with IFRS 15, <i>Revenue from Contracts with Customers</i> .
June 2018	The Board decided to retain the term "Fair Value" until the project on Public Sector Measurement is concluded.

Revenue (Decisions up to December 2018 meeting)
IPSASB Meeting (March 2019)

Date of Decision	Decision
June 2018	The Board decided to approve the terminology changes, and, with some clarifications, the definitions.
June 2018	The Board decided to proceed with the PSPOA for appropriate transactions that were classified as Category B in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> .
June 2018	The Board decided not to change the existing recognition requirements for recognizing services in-kind in IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> .
March 2018	The Board decided that IPSAS 23 should be updated.
March 2018	The Board decided to progress with a convergence project on IFRS 15, <i>Revenue from Contracts with Customers</i> .
June 2017	All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .

Agenda Item

11.1.2

INSTRUCTIONS UP TO DECEMBER 2018 MEETING

Meeting	Instruction	Actioned
December 2018	The Board instructed staff to add a specific exclusion for the amount of consideration included in the surplus or deficit arising from the disposal of investment property dealt with in accordance with IPSAS 16, <i>Investment Property</i> , property, plant and equipment dealt with in accordance with IPSAS 17, <i>Property, Plant and Equipment</i> and intangible assets dealt with in accordance with IPSAS 31, <i>Intangible Assets</i> .	Agenda Item 9.2.1 and Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.
December 2018	The Board instructed staff to replace the example of oil and milk used for non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. (The IPSASB instructed staff to consider using an example that is more suitable for the Public sector).	Agenda Item 9.2.1 and Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.
December 2018	The Board instructed staff to provide a definition of the term, "Purchaser", which incorporates the term, "Customer" as defined in IFRS 15.	Agenda Item 9.2.2 and Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.
December 2018	The Board instructed staff to include explanatory text in the Basis for Conclusions of other terms that were considered to replace the term, "Customer".	Agenda Item 9.2.2 and Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.
December 2018	The Board instructed staff to consider the definition of binding arrangements in the draft Standard.	Agenda Item 9.2.2 and Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.
December 2018	The Board instructed staff to provide explanatory text in the Application Guidance or Basis for Conclusions for certain criteria that are difficult to meet in the public sector. (For instance, private sector entities generally enter into contracts for which collection of payment is probable. This may not always be the case in the public sector, as entities may enter into contracts in which collection of payment is not probable; for example, where an entity is legally required to supply electricity to customers with high credit risk).	Agenda Item 9.2.3 and Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.

Meeting	Instruction	Actioned
December 2018	The Board instructed staff to consider whether the title for the draft Standard should be ' <i>Revenue from Binding Arrangements</i> ' bearing in mind the need to fit with / complement the other elements of the Revenue and Non-Exchange Expenses workstreams.	To be addressed in June 2019.
December 2018	The Board instructed staff to relocate text in boxes in the draft ED included in the Board papers to Application Guidance (for the Public Sector Performance Obligation Approach) or Basis for Conclusions and to consider the overall flow of the text.	Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.
December 2018	The Board instructed staff to provide a complete version of the main ED text for preliminary approval at the March 2019 meeting in order to provide the 'cornerstone' for development of the EDs on Grants and Transfers, and the updated IPSAS 23.	Agenda Item 9.3: [draft] Exposure Draft ED(XX), Revenue from Binding Arrangements with Purchasers.
December 2018	The Board instructed staff to develop drafting on how enhanced display and or disclosure could be communicate the intention/expectations for the use of resources.	To be addressed in June 2019
December 2018	The Board instructed staff to develop guidance on when an entity has control of a resource including discussions on: <ul style="list-style-type: none"> • Appropriations • Budgets • Multi-year funding 	To be addressed in June 2019
December 2018	The Board instructed staff to assess whether an IPSAS 23 'condition' is equivalent to an IFRS 15 'performance obligation'.	To be addressed in June 2019
September 2018	The Board instructed staff to provide options for the title of the draft Standard and show the benefits and disadvantages of these options.	To be addressed in June 2019.
September 2018	The Board instructed staff to consider the scope of the draft Standard and identify whether items such as Dividend Income, Gains on Sale of Property, Plant and Equipment (PPE), Foreign Currency Gains and Interest Income are within the scope.	
September 2018	The Board instructed staff to define the term, "Binding Arrangement", in the main text of the draft Standard and include explanatory text for the terms, "Contract" and "Other Binding Arrangements", in the Basis of Conclusions or Application Guidance.	
September 2018	The Board instructed staff to select either the umbrella term that encompasses the term, "Customer", or the use of the term "Customer" as the umbrella term and provide explanatory text in the Application Guidance or Basis of Conclusion.	

Meeting	Instruction	Actioned
September 2018	The Board instructed staff to add explanatory text in the Application Guidance or Basis of Conclusions that the “Expected Cost plus Margin Approach” is also applicable to goods and services that are provided on a cost-recovery basis.	
September 2018	The Board instructed staff to ensure consistency with other IPSAS and determine whether consequential amendments are necessary for the change of “commercial substance” to “economic substance”.	To be discussed at a future meeting.
September 2018	The Board instructed staff to develop guidance on enforceability acknowledging that enforcement mechanisms may be jurisdictionally specific. Further, the guidance should demonstrate how these mechanisms would work.	Agenda Item 8.2.1
September 2018	The Board instructed staff to consider the New Zealand requirements for providing qualitative disclosures for entities that are reliant on services in-kind for their operations.	To be discussed at a future meeting.
September 2018	The Board instructed staff to redraft the section to explain the principles, using a generic term; which will avoid multiple references to “taxes and other compulsory contributions and levies” and prevent confusion over whether transactions are taxes or levies.	To be discussed at a future meeting.
September 2018	The Board instructed staff to consider the Government Finance Statistics definitions of taxation and levies.	To be discussed at a future meeting.
September 2018	The Board instructed staff to consider including Application Guidance that sets out which transactions are covered, noting the link to social contributions.	To be discussed at a future meeting..
June 2018	The Board instructed staff to check the consistency of the use of the terms “Binding Arrangement or Other Binding Arrangements”.	
June 2018	The Board instructed staff to check whether the difference in the definitions to the term “Binding Arrangements,” as per IPSAS 32, <i>Service Concession Arrangement</i> and IPSAS 35, <i>Joint Arrangements</i> , is due to timing rather than due to substance, since IPSAS 32 was issued before publication of the Conceptual Framework, while IPSAS 35 was published after the Conceptual Framework.	
June 2018	The Board instructed staff to consider adding the terms, “Binding Arrangement Asset” and “Binding Arrangement Liability” to “Contract Asset” and “Contract Liability,” respectively since governments may enter into contracts and/or binding arrangements.	

Meeting	Instruction	Actioned
June 2018	The Board instructed staff to consider whether the definition of “Contract Asset” suits the context of the public sector since the definition of Contract Asset is the entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer.	
June 2018	The Board instructed staff to reconsider changing the term, “Customer” to suit the context of the public sector.	
June 2018	The Board instructed staff to consider swapping the order of “goods and services” to “services and goods.”	
June 2018	The Board instructed staff to move the positioning of the definitions from the Appendices to the body of the standard.	
June 2018	The Board instructed staff to explore whether a reduction in future funding and government powers would be appropriate enforcement mechanisms.	
June 2018	The Board instructed staff to develop guidance to articulate the principle that the customer is the entity that directs and enforces delivery of goods and services.	
June 2018	The Board instructed staff to consider replacing the term ‘commercial substance’ with ‘economic substance’.	
June 2018	The Board instructed staff to develop guidance to articulate what ‘distinct’ would mean when identifying goods and services to be transferred in a performance obligation.	Agenda Item, 8.2.2
June 2018	The Board instructed staff to provide options on how wording and placement of encouragements to recognize or disclose services in-kind would appear in an updated IPSAS 23.	To be discussed further a a future meeting.
June 2018	The Board instructed staff to simplify the draft guidance provided by referring to tax and other compulsory levies.	
March 2018	The Board directed staff to reexamine respondent comments to the CP regarding services in-kind and to shape the arguments for each option.	
March 2018	The Board directed to conduct desk research on service in-kind 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.	

Revenue (Instructions up to December 2018 meeting)
IPSASB Meeting (March 2019)

Meeting	Instruction	Actioned
March 2018	The Board directed staff to further develop the Public Sector Performance Obligation Approach model complete with examples to test the model.	
December 2017	As part of the review of the Work Plan, the IPSASB instructed staff to consider revenue as three separate streams, <i>IFRS 15 Convergence, Updated IPSAS 23 and Grants and other Transfers</i> .	
December 2017	The IPSASB requested staff consider how the Specific Matters for Comment and Preliminary Views relate to the different revenue and non-exchange expenses project streams.	
June 2017	All instructions provided up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .	

REVENUE PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:		
	Revenue from Contracts with Customers (IFRS 15 Convergence & PSPOA for Revenue)	Limited Update of IPSAS 23	Grants and other Transfers
March 2019	1. Discuss Issues 2. Develop ED	1. Discuss Issues 2. Exposure Draft	1. Discuss Issues 2. Exposure Draft
June 2019	1. Exposure Draft	1. Exposure Draft	1. Exposure Draft
September 2019	1. Approve ED	1. Approve ED	1. Approve ED
December 2019			
March 2020			
June 2020	1. Review Responses	1. Review Responses	1. Review Responses
September 2020	1. Discuss Issues	1. Discuss Issues	1. Discuss Issues
December 2020	1. Discuss Issues 2. Develop IPSAS	1. Discuss Issues 2. Develop IPSAS	1. Discuss Issues 2. Develop IPSAS
H1 2021	1. Approve IPSAS	1. Approve IPSAS	1. Approve IPSAS

Agenda Item

11.2.1

Revenue – IPSAS 23 Update – EFRAG Discussion Paper

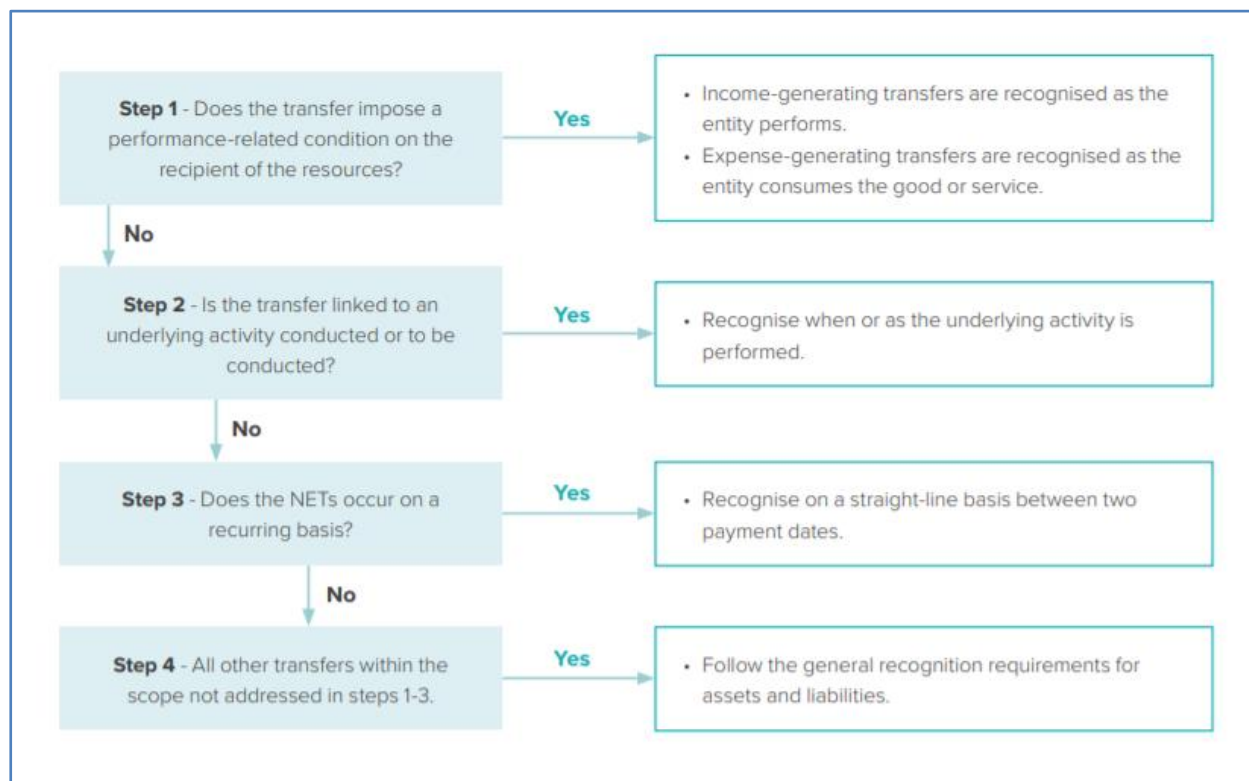
Questions

1. The IPSASB is asked to consider the accounting treatments proposed in the European Financial Reporting Advisory Groups (EFRAG) Discussion Paper (DP), *Non-Exchange Transfers: a Role for Societal Benefit* and their relevance for transactions where there are no identifiable performance obligations but the resource provider has provided an indication or expectation as to how the resources are to be used, for example a specific time period, jurisdiction, or project

Detail

2. The Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* stated that a significant application issue arising from IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was that revenue from unenforceable transactions, but with an intention/expectation of how resources were to be used, was recognized when receivable and not when those intention/expectations were met.
3. At the December 2018 meeting the Board made a tentative decision that enforceability is the key factor in determining under which IPSAS a revenue transaction would be accounted for - that is enforceable transactions would be accounted for under the IFRS 15 based standard and unenforceable transactions would be accounted for under an updated IPSAS 23 IPSAS.
4. It was further decided that revenue from transactions that are not enforceable but which have intentions/expectations is to be recognized when that revenue is receivable and the entity is to communicate these intentions/expectations via enhanced display/disclosure.
5. Since the December 2018 meeting staff have had an opportunity to review a [Discussion Paper \(DP\), *Non-Exchange Transfers: A Role for Societal Benefit*](#), (attached as an Agenda Paper 11.3) issued in November 2018 by EFRAG. This paper discusses transactions of a similar nature to those discussed at the December 2018 meeting and staff considered it important to bring this thinking to the Board's attention.
6. The purpose of this DP is to encourage debate on:
 - (a) Whether transfers in which an entity either receives or gives value from another entity without directly giving or receiving approximately equal value in exchange (referred to as Non-Exchange Transfers or NETs) have differentiating characteristics that could warrant a specific accounting treatment; and
 - (b) If a specific accounting treatment is warranted, the possible features of that accounting treatment. The DP therefore explores a comprehensive approach and conceptual basis for the recognition of NETs.
7. Although the DP only addresses possible accounting treatments for non-exchange transfers and the IPSASB's Revenue project is moving away from using the terms exchange and non-exchange, staff consider that it raises some accounting treatments that might be relevant to the update of IPSAS 23.

8. In brief summary, the DP has developed a 4-step approach to analyze the characteristics of a transfer and then identifies a possible accounting treatment. This 4-step approach is reproduced below:



9. **Step 1** of this approach applies to transfers that impose a performance-related condition on the recipient of the resources. These transfers are recognized as follows:
- Income-generating transfers are recognized as the entity performs; and
 - Expense-generating transfers are recognized as the entity consumes the good or service.
10. Staff are of the view that the transfers and approach in Step 1 are consistent with those proposed in the IPSAS revenue project to be accounted for in the Public Sector Performance Obligation Approach.
11. **Step 2** applies to transfers that are linked to an identifiable underlying activity (or set of activities) conducted or to be conducted by a specified party. These transfers are recognized as that underlying activity occurs. An activity is identifiable when it is possible to assess if and when it has been completed. An activity is not identifiable when the transfer arises as a consequence of general business activities, passages of time or operating in a particular jurisdiction or market at a particular date.
12. The DP suggests that examples of transfers accounted for under step 2 include:

- (a) Taxes on sales;
 - (b) Grants related to the purchase or construction of a long-term asset;
 - (c) Levies due on cash receipts from suppliers (in this case, the identifiable activity is to be conducted by a third party); or
 - (d) Some voluntary contributions to unrelated parties – for instance, an entity may be co-funding a research project without a final transfer of intellectual property.
13. The DP suggests two possible alternatives for revenue recognition:
- (a) The recognition of the transfer should be strictly based on the terms of the underlying activity. For example if the terms refer to 'purchase' a fixed asset then income should be recognized when that purchase is made. However if the terms state 'purchase and use' a fixed asset then income should be recognized as the asset is depreciated.
 - (b) When the underlying activity determines the amount of the transfer at one date but affects the profit or loss at a different date, then recognition of the income should give prominence to the latter (profit or loss). This is based on the notion that the income is consideration for a 'societal' component that the entity receives over time.
14. Whilst not addressing the problem noted in paragraph 2 of this paper (not allowing revenue to be recognized over time), staff are of the view that the approach mentioned in paragraph 13(a) is worth considering when developing options for accounting for capital grants (to be discussed at the June 2019) meeting.
15. **Step 3** applies to transfers that do not have performance-related conditions, nor are they linked to an underlying activity. Rather it relates to transfers that are provided at regular intervals but the entity is not required to act in a specific way. The DP suggests that such transfers are intended to compensate the benefit created by the entity's activity to the public at large.
16. The DP suggests that these transfers could be recognized on a straight-line basis between two payment dates.
17. Staff are attracted to this proposal as a means of addressing the concerns regarding immediate recognition of revenue as previously mentioned at paragraph 4, and thought it worthwhile bringing EFRAG's thinking to the Board's attention.
18. Staff are of the view that it may not be necessary to restrict this approach to reoccurring transfers but rather to those transfers with IPSAS 23 like 'restrictions' (i.e. a stipulation that limit or direct the purposes for which a transferred asset may be used) such a requirement to use the resources over a specific period of time, for a particular project or within a certain jurisdiction. But if this approach was to be used there would have to be some specificity within the agreement that the funds were to be used in a particular manner.
19. Staff consider that if this accounting treatment is considered it will be necessary to revisit utilizing the notion of 'other obligations' as included in the Conceptual Framework, as this approach will require the deferral of revenue recognition which will be held on the statement of financial position until completely recognized.
20. Although this approach is similar to that in the CP whereby these types of transfers would be classified as other obligations (Option D), it proposes a definitive pattern of revenue recognition – on a straight-

line basis whereas Option D did not specify a particular revenue recognition pattern and it may have altered depending on the type of restriction on the transfer.

21. **Step 4** of the EFRAG approach would be applied to all residual transfers, that is those transfers where it is not possible to define a reference point, and would result in immediate recognition of revenue when receivable.

Staff recommendation

22. Staff recommend that the approach taken in Step 2 for transfers linked with an underlying activity be given due consideration as a possible approach to accounting for capital and research grants (this issue to be discussed at the June 2019 meeting).
23. Staff would like the Board to revisit its tentative decision made in December 2018 which will result in transfers with restrictions being recognized immediately when receivable and consider the approach outlaid as Step 3 in the EFRAG DP.

Decision(s) required:

Does the Board agree with the staff recommendation made at paragraph 21?

Does the Board agree with the staff comments made at paragraph 22?

Revenue – Updating IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Questions

1. The Board is asked to review the marked-up version of an updated IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and provide feedback to staff.

Detail

2. At the September 2018 IPSASB meeting, staff walked the Board through (via a PowerPoint presentation) which areas of IPSAS 23, would remain, be updated or deleted. Some of the decisions as to whether a section would remain, be removed or updated depended on the Board decision at the December 2018 meeting regarding unenforceable transactions but with intentions/expectations of how the resources were to be used. The Board tentatively decided that these transactions would be addressed in an updated IPSAS 23. Therefore the sections addressing transactions with restrictions would need to be updated.
3. Staff have not yet commenced revising the drafting of an updated IPSAS 23 but have provided a marked-up version of IPSAS 23 indicating which areas will need to be removed, updated or remain as it. Staff have however, updated the flowchart following paragraph 29. This flowchart is essentially a decision tree to determine which standard should be used – [draft] IPSAS XX *Revenue from Binding Arrangements with Purchasers* or an updated IPSAS 23. This marked-up version of an updated IPSAS 23 is provided in the [Appendix](#) to this paper.
4. A key change to be made when updating IPSAS 23 will be to replace the terms 'non-exchange transaction' and 'exchange transaction'. Staff are of the view that the term should reflect the characteristic of the transaction. The Board tentatively decided that enforceability was the key factor to determine which standard would be used for which type of transaction, however staff consider that whether or not a transaction has a performance obligation is a more appropriate distinction because some enforceable transactions would remain within the scope of an updated IPSAS 23 (e.g. taxes, fines). Therefore staff are suggesting that 'transactions with performance obligations' and 'transactions without performance obligation' may be appropriate terminology.

Decision(s) required

5. The IPASB is asked whether it agrees with:
 - (a) Staff that the terms 'transactions with performance obligations' and 'transactions without performance obligations' are appropriate to replace 'exchange transactions' and 'non-exchange transactions'?
 - (b) The revised flowchart in the marked-up updated IPSAS 23
 - (c) The area indicated to be amended or deleted in the marked-up updated IPSAS 23

Appendix

COMMENTS RE UPDATING IPSAS 23.

- All reference to exchange/non-exchange will need to be removed and expressed in a way that makes the distinction between the two revenue standards.
- The paragraphs stuck through are those staff consider will be removed completely.
- Will need a section on grants/capital grants
- The paragraphs shaded will need to be rewritten.
- All other paragraphs will need to be reviewed to determine if they need changing or more expansion.

Appendix

IPSAS 23—REVENUE FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)

Commented [JS1]: Title to be revised

History of IPSAS

Commented [JS2]: This will need to be revised

This version includes amendments resulting from IPSASs issued up to January 31, 2018.

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* was issued in December 2006.

Since then, IPSAS 23 has been amended by the following IPSASs:

- IPSAS 40, *Public Sector Combinations* (issued January 2017)
- *The Applicability of IPSASs* (issued April 2016)
- *Improvements to IPSASs 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (issued January 2015)
- *Improvements to IPSASs 2011* (issued October 2011)
- IPSAS 28, *Financial Instruments: Presentation* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 31, *Intangible Assets* (issued January 2010)

Table of Amended Paragraphs in IPSAS 23

Commented [JS3]: As there will be a lot of amendments might need to think about starting again.

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	Improvements to IPSASs October 2011
1	Amended	IPSAS 40 January 2017
2	Amended	IPSAS 40 January

Appendix

Paragraph Affected	How Affected	Affected By
		2017
3	Deleted	The Applicability of IPSASs April 2016
4	Deleted	The Applicability of IPSASs April 2016
5	Amended	IPSAS 29 January 2010
6	Amended	IPSAS 40 January 2017
10	Amended	IPSAS 29 January 2010
31	Amended	Improvements to IPSASs April 2016
37	Amended	IPSAS 28 January 2010
87	Amended	IPSAS 29 January 2010
105A	New	IPSAS 29 January 2010
105B	New	IPSAS 29 January 2010
106	Amended	IPSAS 29 January 2010

Appendix

Paragraph Affected	How Affected	Affected By
116	Deleted	IPSAS 33 January 2015
117	Deleted	IPSAS 33 January 2015
118	Deleted	IPSAS 33 January 2015
119	Deleted	IPSAS 33 January 2015
120	Deleted	IPSAS 33 January 2015
121	Deleted	IPSAS 33 January 2015
122	Deleted	IPSAS 33 January 2015
123	Deleted	IPSAS 33 January 2015
124A	New	IPSAS 28 January 2010
124B	New	IPSAS 29 January 2010
124C	New	IPSAS 33 January 2015
124D	New	The Applicability of

Appendix

Paragraph Affected	How Affected	Affected By
		IPSASs April 2016
124E	New	IPSAS 40 January 2017
125	Amended	IPSAS 33 January 2015
IG27	Amended	IPSAS 31 January 2010
IG54	New	IPSAS 29 January 2010

Appendix

December 2006

IPSAS 23—REVENUE FROM NON-EXCHANGE
TRANSACTIONS (TAXES AND TRANSFERS)

CONTENTS

Commented [JS4]: Will need updating

	Paragraph
Objective	1
Scope	2–6
Definitions.....	7–28
Non-Exchange Transactions	8–11
Revenue	12–13
Stipulations	14–16
Conditions on Transferred Assets	17–18
Restrictions on Transferred Assets	19
Substance over Form	20–25
Taxes	26–28
Analysis of the Initial Inflow of Resources from Non-Exchange Transactions	29
Recognition of Assets	30–43
Control of an Asset	32–33
Past Event	34
Probable Inflow of Resources.....	35
Contingent Assets.....	36
Contributions from Owners.....	37–38
Exchange and Non-Exchange Components of a Transaction	39–41
Measurement of Assets on Initial Recognition	42–43
Recognition of Revenue from Non-Exchange Transactions.....	44–47
Measurement of Revenue from Non-Exchange Transactions.....	48–49
Present Obligations Recognized as Liabilities.....	50–58
Present Obligation	51–54

Appendix

Conditions on a Transferred Asset	55–56
Measurement of Liabilities on Initial Recognition	57–58
Taxes.....	59–75
The Taxable Event.....	65
Advance Receipts of Taxes.....	66
Measurement of Assets Arising from Taxation Transactions ..	67–70
Expenses Paid Through the Tax System and Tax Expenditures	71–75
Transfers	76–105B
Measurement of Transferred Assets	83
Debt Forgiveness and Assumption of Liabilities.....	84–87
Fines	88–89
Bequests.....	90–92
Gifts and Donations, including Goods In-kind	93–97
Services In-kind	98–103
Pledges.....	104
Advance Receipts of Transfers	105
Concessionary Loans	105A–105B
Disclosures.....	106–115
Transitional Provisions	116–123
Effective Date.....	124–125
Basis for Conclusions	
Implementation Guidance	

Appendix

International Public Sector Accounting Standard 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, is set out in paragraphs 1–125. All the paragraphs have equal authority. IPSAS 23 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards*, and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. 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.

Appendix

Objective

1. The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to a public sector combination. This Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to a public sector combination that is a non-exchange transaction.**
3. [Deleted]
4. [Deleted]
5. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from ~~exchange—transactions~~[Binding arrangement with purchasers] is addressed in IPSAS ~~9XX~~, *Revenue from ~~Exchange—Transactions~~Binding Arrangements with Purchasers*. 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 is typically derived from non-exchange transactions, such as:
 - (a) Taxes; and
 - (b) Transfers (whether cash or noncash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, and the off-market portion of concessionary loans received.
6. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Public sector combinations shall be accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

Definitions

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

Appendix

~~Conditions on transferred assets~~ are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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.

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

Fines are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

~~Stipulations on transferred assets~~ are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

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

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

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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

Non-Exchange Transactions

8. In some transactions, it is clear that there is an exchange of approximately

Commented [JS5]: This will need to be rewritten in the context of performance obligation/no performance obligation

Appendix

equal value. These are exchange transactions and are addressed in other IPSASs.

9. In other transactions, an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions and are addressed in this Standard. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. While the taxing government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.
10. There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately. For example, an entity receives CU6 million funding from a multi-lateral development agency. The agreement stipulates that the entity must repay CU5 million of the funding received over a period of 10 years, at 5% interest when the market rate for a similar loan is 11%. The entity has effectively received a CU1 million grant (CU6 million received less CU5 million to be repaid) and entered into CU5 million concessionary loan which attracts interest at 6% below the market interest rate for a similar loan. The CU1 million grant received, as well as the off-market portion of the interest payments in terms of the agreement, are non-exchange transactions. The contractual capital and interest payments over the period of the loan are exchange transactions.
11. There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, 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 addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

Revenue

12. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions

Appendix

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 the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17, *Property, Plant, and Equipment*.

Stipulations

- ~~14. Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations, as defined in this Standard. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls.~~
- ~~15. Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).~~
- ~~16. Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations. IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, establishes requirements for the recognition and measurement of constructive obligations.~~

Conditions on Transferred Assets

- ~~17. Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or~~

Appendix

~~service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources, as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties, or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognizes an asset that is subject to a condition, the recipient also incurs a liability.~~

- ~~18. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity will still recognize the gross amounts in its financial statements, that is, the entity will recognize a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.~~

Restrictions on Transferred Assets

19. Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise. Such actions may result in the entity being directed to fulfill the restriction or face a civil or criminal penalty for defying the court, other tribunal, or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

Commented [JS6]: If keeping will need rewriting.

Substance over Form

- ~~20. In determining whether a stipulation is a condition or a restriction, it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third~~

Appendix

parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.

21. ~~In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable, and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition, and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.~~
22. ~~The definition of a condition imposes on the recipient entity a performance obligation—that is, the recipient is required to consume the future economic benefits or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form, and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because, in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.~~
23. ~~To satisfy the criteria for recognition as a liability, it is necessary that an outflow of resources will be probable, and performance against the condition is required and is able to be assessed. Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly so where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition, and the return obligation has been enforced if significant failures to perform have occurred in the past.~~

Appendix

24. ~~In some cases, an asset may be transferred subject to the stipulation that it be returned to the transferor if a specified future event does not occur. This may occur where, for example, a national government provides funds to a provincial government entity subject to the stipulation that the entity raise a matching contribution. In these cases, a return obligation does not arise until such time as it is expected that the stipulation will be breached, and a liability is not recognized until the recognition criteria have been satisfied.~~
25. ~~However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this Standard, advance receipt refers to resources received prior to a taxable event or a transfer arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with IPSAS 9.~~

Taxes

26. Taxes are the major source of revenue for many governments and other public sector entities. Taxes are defined in paragraph 7 as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation. Noncompulsory 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.
27. Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations (a) establish a government's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations 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 subject to 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.
28. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Appendix

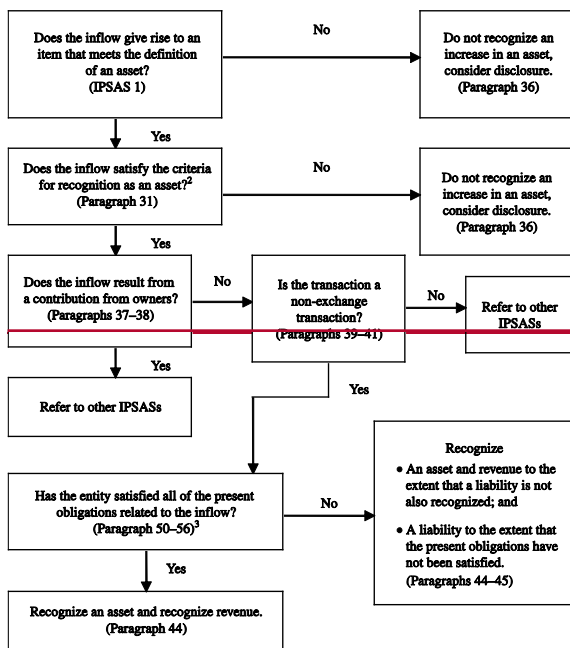
Analysis of the Initial Inflow of Resources from Non-Exchange Transactions

29. An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognize as a liability. 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 transactions. 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. This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 30–115.

Appendix

Illustration of the Analysis of Initial Inflows of Resources¹

Commented [JS7]: To be replaced see next page



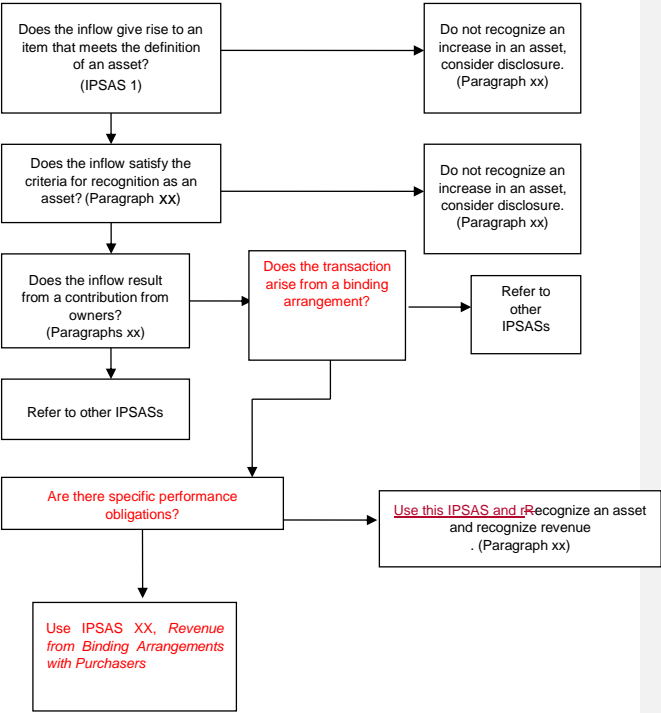
1. The flowchart is illustrative only, it does not take the place of this Standard. It is provided as an aid to interpreting this Standard.

2. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.

3. In determining whether the entity has satisfied all of the present obligations, the application of the definition of conditions on a transferred asset, and the criteria for recognizing a liability, are considered.

Appendix

Illustration of the Analysis of Initial Inflows of Resources



Appendix

Recognition of Assets

30. Assets are defined in IPSAS 1 as 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.
31. **An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:**
 - (a) **It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and**
 - (b) **The fair value of the asset can be measured reliably.¹**

Control of an Asset

32. 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 activities, for example, financial institutions or pension funds. 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. In accordance with paragraph 98, entities may, but are not required, to recognize services in-kind.
33. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a public school were destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognize an inflow of resources (resources receivable) at the time of the announcement. In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding, because the recipient entity cannot exclude or regulate the access of the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognize an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources.

¹ Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Appendix

Past Event

34. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

35. 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. For example, where (a) a government agrees to transfer funds to a public sector entity (reporting entity), (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

36. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition, may warrant disclosure in the notes as a contingent asset (see IPSAS 19).

Contributions from Owners

37. Contributions from owners are defined in IPSAS 1. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 38 indicates the form that contributions from owners may take. 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. For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance in IPSAS 28, *Financial Instruments: Presentation* when distinguishing liabilities from contributions from owners.
38. A contribution from owners may be evidenced by, for example:

Commented [JS8]: Need to think if this should be here or in IPSAS 1 or where deemed most appropriate

Appendix

- (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 or increasing an existing financial interest in the net assets/equity of the recipient that can be sold, transferred, or redeemed; or
- (c) The issuance, in relation to the contribution, of equity instruments that can be sold, transferred, or redeemed.

Exchange and Non-Exchange Components of a Transaction

- 39. Paragraphs 40 and 41 below address circumstances in which an entity gains control of resources embodying future economic benefits or service potential other than by contributions from owners.
- 40. Paragraph 11 of IPSAS 9, defines exchange transactions and non-exchange transactions, and paragraph 10 of this Standard notes that a transaction may include two components, an exchange component and a non-exchange component.
- 41. Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognizes the exchange component according to the principles and requirements of other IPSASs. The non-exchange component is recognized according to the principles and requirements of this Standard. In determining whether a transaction has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

Commented [JS9]: Need updating to address a performance obligation/no performance obligation aspect

Measurement of Assets on Initial Recognition

- 42. **An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.**
- 43. Consistent with IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, and IPSAS 17, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition.

Recognition of Revenue from Non-Exchange Transactions

- 44. **An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**
- 45. **As an entity satisfies a present obligation recognized as a liability in**

Appendix

respect of an inflow of resources from a non-exchange

transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Commented [JS10]: Will need updating

46. 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 of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.
47. 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 or services are provided.

Measurement of Revenue from Non-Exchange Transactions

48. Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity.
49. When, as a result of a non-exchange transaction, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 42, unless it is also required to recognize a liability. Where a liability is required to be recognized it will be measured in accordance with the requirements of paragraph 57, and the amount of the increase in net assets, if any, will be recognized as revenue. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognized as revenue.

Present Obligations Recognized as Liabilities

50. A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when, and only when:
 - (a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
 - (b) A reliable estimate can be made of the amount of the obligation.

Appendix

Present Obligation

51. 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 laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.
52. In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to laws, regulation, or other binding arrangements that impose stipulations that they be used for particular purposes. For example:
 - (a) Taxes, the use of which is limited by laws or regulations to specified purposes;
 - (b) Transfers, established by a binding arrangement that includes conditions:
 - (i) From national governments to provincial, state or local governments;
 - (ii) From state/provincial governments to local governments;
 - (iii) From governments to other public sector entities;
 - (iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and
 - (v) From donor agencies to governments or other public sector entities.
53. In the normal course of operations, a reporting entity may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognized until the taxable event occurs.
54. If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

Conditions on a Transferred Asset

- ~~55. Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognized in accordance with paragraph 50.~~
- ~~56. Stipulations are defined in paragraph 7. Paragraphs 14-25 provide~~

Appendix

~~guidance on determining whether a stipulation is a condition or a restriction. An entity analyzes any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.~~

Measurement of Liabilities on Initial Recognition

57. **The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.**
58. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19.

Taxes

59. **An entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.**
60. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes 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, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
61. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income tax for the state government and several city governments, it does not recognize revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.
62. Taxes do not satisfy the definition of contributions from owners, because

Appendix

the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the government being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the government that can be sold, exchanged, transferred, or redeemed.

63. Taxes satisfy the definition of non-exchange transaction because the taxpayer transfers resources to the government, without receiving approximately equal value directly in exchange. While the taxpayer may benefit from a range of social policies established by the government, these are not provided directly in exchange as consideration for the payment of taxes.
64. As noted in paragraph 52, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability, because the specific purposes amount to restrictions not conditions.

The Taxable Event

65. Similar types of taxes are levied in many jurisdictions. The reporting entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, 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.

Advance Receipts of Taxes

66. Consistent with the definitions of assets, liabilities, and the requirements

Appendix

of paragraph 59, resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied (see paragraph 59), notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

67. Paragraph 42 requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform with the requirements of paragraph 42. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.
68. Where there is a separation between the timing of the taxable event and collection of taxes, public sector entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation receivable to other events in the economy. Measurement models will also take account of other 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 potential that 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;
 - (f) The tax law permitting taxpayers to defer payment of some taxes; and

Appendix

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

69. Measuring assets and revenue arising from taxation transactions 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 taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
70. In some cases, the assets arising from taxation transactions and the related revenue cannot be reliably measured until sometime after the taxable event occurs. This may occur if a tax base is volatile and reliable 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 when 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

71. **Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**
72. In some jurisdictions, the government uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method, such as writing a check, 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, either by reducing the individual's tax liability, making a payment by check, or by paying an amount directly to the insurance company. In these cases, the amount 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.
73. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**

Appendix

74. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, homeowners 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, liabilities, revenue, or expenses of the taxing government.
75. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. IPSAS 1 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

76. **Subject to paragraph 98, an entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**
77. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange, and are not taxes as defined in this Standard.
78. Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers 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. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity decreases the carrying amount of the liability.
79. An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources

Appendix

takes place. However, sometimes one entity promises to transfer resources, but fails to do so. Consequently only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognized. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

80. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements (a) that specify that the entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) that specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred, or redeemed, are, in substance, agreements to make a contribution from owners.
81. Transfers satisfy the definition of non-exchange transactions because the transferor provides resources to the recipient entity without the recipient entity providing approximately equal value directly in exchange. If an agreement stipulates that the recipient entity is to provide approximately equal value in exchange, the agreement is not a transfer agreement, but a contract for an exchange transaction that should be accounted for under IPSAS 9.
82. An entity analyzes all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 17. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

84. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national

Appendix

government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.

85. 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, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.
86. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 37–38.
87. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

88. Fines are economic benefits or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some jurisdictions, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. 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 recognized as a fine.
89. 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 31. As noted in paragraph 12, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

90. A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.
91. Bequests that satisfy the definition of an asset are recognized as assets

Appendix

and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

92. The fair value of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph 97. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the fair value of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the fair value of the resources received or receivable.

Gifts and Donations, including Goods In-kind

93. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98–103 below.
94. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.
95. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.
96. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.
97. On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be

Appendix

ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

Services In-kind

98. **An entity may, but is not required to, recognize services in-kind as revenue and as an asset.**
99. Services in-kind are 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 future economic benefits or service potential 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. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.
100. Public sector entities may be recipients of services in-kind 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.
101. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the

Commented [JS11]: To be updated re Board decision in Sept 2018

Appendix

criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 100, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

102. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph 108, however, encourages the disclosure of the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.
103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

104. Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset, because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognized as a gift or donation, in accordance with paragraphs 93–97 above. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Advance Receipts of Transfers

105. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they

Appendix

meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the event that makes the transfer arrangement binding occurs, and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

Concessionary Loans

- 105A. Concessionary loans are loans received by an entity at below market terms. The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*. An entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 29) is non-exchange revenue that should be accounted for in accordance with this Standard.
- 105B. Where an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue, an entity recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred assets by the recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

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; and**
 - (ii) **Transfers, showing separately major classes of transfer revenue.**
 - (b) **The amount of receivables recognized in respect of non-exchange revenue;**
 - (c) **The amount of liabilities recognized in respect of transferred assets subject to conditions;**

Appendix

- (cA) **The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets;**
- (d) **The amount of assets recognized that are subject to restrictions and the nature of those restrictions;**
- (e) **The existence and amounts of any advance receipts in respect of non-exchange transactions; and**
- (f) **The amount of any liabilities forgiven.**
107. **An entity shall disclose in the notes to the general purpose financial statements:**
- (a) **The accounting policies adopted for the recognition of revenue from non-exchange transactions;**
- (b) **For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;**
- (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; and**
- (d) **The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.**
108. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognized. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.
109. The disclosures required by paragraphs 106 and 107 assist the reporting entity to satisfy the objectives of financial reporting, as set out in IPSAS 1, which is to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.
110. Disclosure of the major classes of revenue assists users to make informed judgments about the entity's exposure to particular revenue streams.
111. Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of (a) the amount of liabilities recognized in respect of conditions, and (b) the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by

Appendix

paragraph 106(c).

112. Paragraph 106(e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgments about the entity's future revenue and net asset position.
113. As noted in paragraph 68, in many cases an entity will be able to reliably measure assets and revenue arising from taxation 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 occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgments about the entity's future revenue and net asset position.
114. Paragraph 107(d) requires entities to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgments about the entity's future revenue and net asset position.
115. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these services in-kind and measure them at their fair value. Paragraph 108 encourages an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

Transitional Provisions

116. [Deleted]
117. [Deleted]
118. [Deleted]
119. [Deleted]

Appendix

- 120. [Deleted]
- 121. [Deleted]
- 122. [Deleted]
- 123. [Deleted]

Effective Date

- 124. An entity shall apply this Standard for annual financial statements covering periods beginning on or after June 30, 2008. Earlier application is encouraged. If an entity applies this Standard for periods beginning before June 30, 2008, it shall disclose that fact.
- 124A. IPSAS 28 amended paragraph 37. An entity shall apply the amendment for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 28 for a period beginning before January 1, 2013, the amendment shall also be applied for that earlier period.
- 124B. IPSAS 29 amended paragraphs 5, 10, 87, and 106, and inserted paragraphs 105A and 105B. An entity shall apply the amendments for annual financial statements covering periods beginning on or after January 1, 2013. If an entity applies IPSAS 29 for a period beginning before January 1, 2013, the amendments shall also be applied for that earlier period.
- 124C. Paragraphs 116, 117, 118, 119, 120, 121, 122, 123 and 125 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.
- 124D. Paragraphs 3 and 4 were deleted by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.
- 124E. Paragraphs 1, 2 and 6 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period

Appendix

beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.

125. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* 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 of IPSASs.

Appendix

Basis for Conclusions

Commented [JS12]: This will need updating

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 23. Individual IPSASB members gave greater weight to some factors than to others. In forming their views, IPSASB members considered in depth (a) the views expressed by the Steering Committee on Non-Exchange Revenue in the Invitation to Comment (ITC), *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*, issued in January 2004, (b) the views expressed by constituents who responded to the consultation on that ITC, and (c) the views of respondents to Exposure Draft (ED) 29, *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*.
- BC2. In developing this IPSAS, the IPSASB considered the provisions of relevant IFRSs issued by the IASB, in particular International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, and IAS 41, *Agriculture*.
- BC3. The IPSASB is cognizant of the project being undertaken by the IASB on revenue recognition and also the IASB's ED Proposed Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The IPSASB will continue to monitor these projects and, at an appropriate time, consider implications of any changes to IFRSs for IPSASs and IPSASB projects. However, the IPSASB does not consider it appropriate to preempt the outcome of the IASB's due process and anticipate changes to IFRSs. In addition, given the significance of non-exchange revenue to many public sector entities, the IPSASB does not consider that it would be appropriate to defer issuance of this IPSAS pending the outcome of IASB projects.

Background

- 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. This IPSAS addresses these types of transactions from the perspective of a public sector entity.
- BC5. In 2002, the IPSASB (then the PSC) initiated a project to develop an IPSAS for the recognition and measurement of revenue from non-exchange transactions (including taxes and transfers). The IPSASB established a Steering Committee to develop an ITC to consider the issues related to this issue and make initial recommendations. The Steering Committee was comprised of public sector financial reporting experts from a variety of countries, and was chaired by an IPSASB member. An ITC was published in January 2004, with comments requested by June 30,

Appendix

2004. Fifty-one comments were received. In November 2004, the IPSASB analyzed those comments and began drafting ED 29, which was published in January 2006, with a request for comments by June 30, 2006.

- BC6. In November 2006, the IPSASB undertook an in-depth analysis of the responses to ED 29 and prepared this IPSAS and approved it for issue.

Approach

- BC7. This Standard establishes broad principles for the recognition of revenue from non-exchange transactions, and provides guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. In developing this Standard, the IPSASB considered whether to adopt an approach that focused on the development of requirements for accounting for revenue arising from a range of specific types of non-exchange transactions. However, the IPSASB noted and agreed with the views of the Steering Committee that such an approach brings with it consequent risks that the resultant Standard would not provide comprehensive guidance for all revenue from non-exchange transactions. The IPSASB is of the view that the approach adopted in this Standard ensures that appropriate broad principles for the recognition of revenue from non-exchange transactions are established and can be applied to all revenue from non-exchange transactions.

Entity Combinations

- BC8. When issued, this Standard did not specify whether entity combinations resulting from non-exchange transactions will give rise to revenue. This was because the IPSASB had not considered the financial reporting of entity combinations in the public sector, including the applicability of IFRS 3, *Business Combinations*, to public sector entities.
- BC8A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations*. IPSAS 40 specifies the accounting for public sector combinations, including the treatment for any gains or losses. Public sector combinations are, therefore, excluded from the scope of this Standard.

Monetary and Non-monetary Assets

- BC9. This Standard does not establish different requirements in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The IPSASB is of the view that while non-monetary assets raise additional measurement concerns, they do not, of themselves, justify different financial reporting treatments.

Enforceability of Stipulations

- BC10. This Standard defines stipulations, conditions, and restrictions as terms in

Appendix

a transfer agreement or legislation or other binding arrangements imposed upon the use of transferred assets. The Standard reflects the view that stipulations, conditions, and restrictions must be enforceable to be effective. The ITC and ED 29 also reflected the principle that stipulations imposed on the use of transferred assets are contained in laws, regulations, or other binding arrangements, and are by definition enforceable. The IPSASB considers that this principle is necessary to prevent the inappropriate deferment of revenue recognition, or the disclosure of restrictions that have no substance.

Stipulations—Conditions

- BC11. This Standard requires that where the transfer of an asset imposes a condition on the recipient, the recipient should recognize a liability in respect of the transfer on initial recognition of the asset. This is because the recipient is unable to avoid an outflow of resources, as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties as specified, or else to return to the transferor future economic benefits or service potential. Depending on the nature of the condition, it may be fulfilled progressively, permitting the entity to reduce the amount of the liability and recognize revenue progressively, or it may only be fulfilled on the occurrence of a particular future event, in which case the entity eliminates the liability and recognizes revenue when that event occurs.
- BC12. Some are of the view that a liability should be recognized only when it is probable that conditions attaching to the inflow of resources will not be satisfied, and that future economic benefits or service potential will be required to be returned to the transferor. The IPSASB rejected this proposal, because it could result in entities recognizing revenue prematurely, because the entity would recognize the full fair value of the asset as revenue when it initially gains control of the asset, notwithstanding the outflow of resources necessary to satisfy the condition. The financial statements would not, therefore, recognize the present obligation to fulfill the condition imposed by the transfer or return future economic benefits or service potential to the transferor.

Stipulations—Restrictions

- BC13. This Standard does not permit entities to recognize a liability in respect of a restriction when the transferred asset is initially recognized. This is because, as defined in this Standard, restrictions do not of themselves impose a present obligation upon the recipient entity to sacrifice future economic benefits or service potential to satisfy the restriction. A breach of a restriction may ultimately lead to a penalty, such as a fine, being

Appendix

imposed upon the recipient entity; however, such a penalty is the result of enforcement procedures resulting from the breach, not from the initial recognition of the asset.

Transactions with Exchange and Non-Exchange Components

BC14. This Standard notes that a single transaction can have two components, an exchange component and a non-exchange component. 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 enhances the transparency of financial statements and satisfies the qualitative characteristic of reporting the substance of transactions.

Contributions from Owners

BC15. This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 38). Many public sector entities receive inflows of resources from 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. Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects 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.

Measurement of Assets

BC16. This Standard requires that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. The IPSASB is of the view that this is appropriate to reflect the substance of the transaction and its consequences for the recipient. In an exchange transaction, the cost of acquisition is a measure of the fair value of the asset acquired. However, by definition, in a non-exchange transaction the consideration provided for the acquisition of an asset is not approximately equal to the fair value of the asset acquired. Fair value most faithfully represents the actual value the public sector entity accrues as a result of the transaction. Initial measurement of assets acquired through non-exchange transactions at their fair value is consistent with the approach taken in IPSAS 16, *Investment Property*, and IPSAS 17, *Property, Plant, and Equipment*, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, *Inventories*, and IPSAS 16 and IPSAS 17 to fully align those IPSASs with the requirements of this Standard.

Appendix

Entity Bank Accounts

- BC17. This Standard assumes the requirement that all money deposited in a bank account of an entity satisfies the definition of an asset and meets the criteria for recognition of an asset of the entity. The IPSASB established this principle in paragraphs 1.2.6 and 1.2.7 of the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The Standard also requires the recognition of a liability in respect of any amount the reporting entity has collected and deposited in its own bank account while acting as an agent of another entity.

Measurement of Liabilities

- BC18. This Standard requires that where an entity recognizes a liability in respect of an inflow of resources, that liability will initially be measured as the best estimate of the amount required to settle the obligation at the reporting date. This measurement basis is consistent with IPSAS 19. The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

Taxable Event

- BC19. This Standard defines a taxable event as the past event that the government, legislature, or other authority has determined to be subject to taxation. The Standard notes that this is the earliest possible time to recognize assets and revenue arising from a taxation transaction, and is the point at which the past event that gives rise to control of the asset occurs. The IPSASB considered an alternative view that an entity only gains control of resources arising from taxation when those resources are received. While recognizing that there can be difficulties in reliably measuring certain taxation streams, the IPSASB rejected such an approach as inappropriate for the accrual basis of financial reporting.

Advance Receipts

- BC20. This Standard requires an entity that receives resources in advance of the taxable event, or of a transfer arrangement becoming enforceable, to recognize an asset and a liability of an equivalent amount. This is consistent with the principles of accrual accounting to recognize revenue in the period in which the underlying event that gives rise to the revenue occurs. In the event that the taxable event did not occur, or the transfer arrangement did not become enforceable, the entity may need to return part or all of the resources. Some are of the view that, where resources are received in advance of the taxable event, an entity should only recognize a liability where it considers it probable that there will be a subsequent outflow of resources. The IPSASB supports the view that

Appendix

revenue should not be recognized until the taxable event occurs, and extends the principle to transfers, so that where resources are received prior to a transfer arrangement becoming binding, the entity recognizes an asset and a liability for the advance receipt.

Expenses Paid Through the Tax System and Tax Expenditures

- BC21. This Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, offsetting of expenses against revenue is not permitted. As defined in this Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this Standard.
- BC22. The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (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 the IPSAS 1 requirement not to offset items of revenue and expense. The statistical financial reporting frameworks are currently under review; in particular, a new edition of the United Nations' *System of National Accounts* is currently under development and is due to be published in 2008. The revised framework may revise the current reporting requirement in respect to tax credits. Revision of the *System of National Accounts* often precedes revisions to other statistical frameworks.

The Tax Gap

- BC23. For some taxes, reporting entities will be aware that the amount the government is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, noncompliance

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

Appendix

with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the tax gap. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

- BC24. The IPSASB is of the view that the tax gap does not meet the definition of an asset, as it is not expected that resources will flow to the government in respect of these amounts. Consequently, assets, liabilities, revenue, or expenses will not be recognized in respect of the tax gap.

Services In-kind

- BC25. This Standard permits, but does not require, recognition of services in-kind. This Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the reporting entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

Compulsory Contributions to Social Security Schemes

- BC26. This Standard does not exclude from its scope compulsory contributions to social security schemes that are non-exchange transactions. There are a variety of different arrangements for funding social security schemes in different jurisdictions. Whether or not compulsory contributions to social security schemes give rise to exchange or non-exchange transactions depends on the particular arrangements of a given scheme, and professional judgment is exercised to determine whether the contributions to a social security scheme are recognized in accordance with the principles established in this Standard, or in accordance with principles established in international or national standards addressing such schemes.

Revision of IPSAS 23 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

- BC27. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:
- (a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;
 - (b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

IPSASB Meeting (March 2019)

Appendix

- (c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Appendix

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 23.

Measurement, Recognition, and Disclosure of Revenue from Non-Exchange Transactions

Income Tax (paragraph 65)

- 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 personal 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.

Measurement of Taxation Revenue (paragraphs 67–70)

- IG3. 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 January 1 to December 31. 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.
- IG4. 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

Commented [J513]: Will need to be revised

Appendix

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. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.

- IG5. The model enables the reporting entity to reliably measure the assets and revenue accruing to it 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. In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Value Added Tax (paragraph 65)¹

- IG6. 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.
- IG7. The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity, that is, the sale of value-added goods or services, during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances, estimates of tax revenue for the reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3.

Goods and Services Tax (paragraph 65)

- IG8. A national government (reporting entity) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are

¹ Some jurisdictions use the terms Value Added Tax (VAT) and Goods and Services Tax (GST) interchangeably.

Appendix

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.

- IG9. The government controls a resource – GST receivable – when the taxable event occurs, which is the sale of taxable goods and services during the reporting period. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the sales and purchases take place or, if the tax receivable cannot be reliably measured as at the end of the reporting period, later, as soon as it can reliably measure the tax receivable.

Customs Duty (paragraph 65)

- IG10. 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.
- IG11. 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.

Death Duties (paragraph 65)

- IG12. A national government (reporting entity) imposes death duties of 40 percent 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.
- IG13. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable

Appendix

property. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

Property Tax (paragraph 65)

- IG14. A local government (reporting entity) levies a tax of one percent 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.
- IG15. The government controls a resource – property taxes receivable – when the taxable event occurs, which is the 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 the reporting period in which that date occurs.

Advance Receipts of Income Tax (paragraph 66)

- IG16. Government A (reporting entity) levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the government.
- IG17. The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The reporting entity recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Grant to Another Level of Government for General Purposes (paragraphs 14–16, 76)

- IG18. The national government (transferor) makes a grant of CU10 million to a local government in a socioeconomically deprived area. The local government (reporting entity) is required under its constitution to undertake various social programs; however, it has insufficient resources

Appendix

to undertake all of these programs without assistance. There are no stipulations attached to the grant. All local governments are required to prepare and present audited general purpose financial statements.

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

Transfer with Stipulations that do not Satisfy the Definition of a Condition (paragraphs 20–25)

- IG20. A national government makes a cash transfer of CU50 million to a state government social housing entity, specifying that it:

- (a) Increases the stock of social housing by an additional 1,000 units over and above any other planned increases; or
- (b) Uses the cash transfer in other ways to support its social housing objectives.

If neither of these stipulations is satisfied, the recipient entity must return the cash to the national government.

- IG21. The state government social housing entity recognizes an increase in an asset (cash) and revenue in the amount of CU50 million. The stipulations in the transfer agreement are stated so broadly as to not impose on the recipient a performance obligation – the performance obligation is imposed by the operating mandate of the entity, not by the terms of the transfer.

Transfer to a Public Sector University with Restrictions (paragraphs 19 and 76)

- IG22. The national government (transferor) transfers 200 hectares of land in a major city to a university (reporting entity) 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.

- IG23. The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17. 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.

Grant to Another Level of Government with Conditions (paragraphs 17–18)

- IG24. The national government (transferor) grants CU10 million to a provincial

Appendix

government (reporting entity) 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 provincial government 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 as specified in the current year or be returned to the national government.

- IG25. The provincial government recognizes the grant money as an asset. The provincial government 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.

Research Grant (in Substance Exchange Transaction) (paragraph 8)

- IG26. A large corporation that makes cleaning products (transferor) gives money to a public university (reporting entity) 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 it before being announced to the public, and that it has the right to apply for a patent on the compound.
- IG27. This is an exchange transaction. In return for the grant, the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. IPSAS 9 and IPSAS 31, *Intangible Assets* apply to this transaction.

Debt Forgiveness (paragraphs 84–87)

- IG28. The national government (transferor) lent a local government (reporting entity) 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 it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.
- IG29. 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.

Appendix

Purchase of Property with Exchange and Non-Exchange Components (paragraphs 8–11, 39–41)

- IG30. 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 the non-exchange transaction comprises two components, an exchange component and a non-exchange component. One component involves the purchase of a half share in the land for CU50,000, the other component is a non-exchange transaction that transfers the remaining half share of the land to the school.
- IG31. 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).

Proposed Bequest (paragraphs 90–92)

- IG32. A 25-year old recent graduate (transferor) of a public university names the university (reporting entity) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.
- IG33. 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 bequest is the death of the testator (transferor), which has not occurred.

Pledge—Television Appeal for Public Hospital (paragraph 104)

- IG34. On the evening of June 30, 20X5, a local television station conducts a fundraising appeal for a public hospital (reporting entity). The annual reporting date of the public hospital is June 30. Television viewers telephone or e-mail, promising to send donations of specified amounts of money. At the conclusion of the appeal, CU2 million has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.
- IG35. The public hospital 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 transferors 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 binding on the donor.

Appendix

Fine (paragraphs 88–89)

- IG36. 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.
- IG37. The government (reporting entity) recognizes a receivable and revenue of CU50 million in the general purpose financial statements of the reporting period in which the fine is imposed.

External Assistance Recognized (paragraphs 76–82)

- IG38. 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 National Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by National Government A. Government A measures the fair value of the development assistance at CU5 million.
- IG39. When the external assistance agreement becomes 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 binding. There are no conditions attached to this agreement that require the entity to recognize a liability.

Revenue of Aid Agency (paragraphs 76, 93–97)

- IG40. Green-Aid Agency relies on funding from a group of governments. The governments have signed a formal agreement, which determines the percentage of Green-Aid Agency's approved budget that each government will fund. Green-Aid Agency can only use the funds to meet the expenses of the budget year for which the funds are provided. Green-Aid Agency's financial year begins on January 1. Green-Aid Agency's budget is approved in the preceding October, and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time.
- IG41. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
--	--------------

Appendix

Budget approved October 24, 20X7	55
Amount invoiced November 4, 20X7	55
Transfers received as at December 31, 20X7	15
Transfers received during 20X8	38
Amount not received by December 31, 20X8 and unlikely to be received	2

IG42. In 20X7, Green-Aid Agency recognizes an asset of CU15 Million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognized.

IG43. In 20X8, Green Aid Agency recognizes CU53 million of revenue from transfers. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

Goods In-kind Recognized as Revenue (paragraphs 42, 93–97)

IG44. Transferor Government A has an arrangement with the public sector reporting entity, Aid Agency Inc., whereby Government A provides rice to meet its promised financial commitments to Aid Agency Inc. Based on the variability in Government A's past performance in meeting its commitments, Aid Agency Inc. has adopted an accounting policy of not recognizing the asset and revenue until receipt of the promised rice. Government A promises to provide Aid Agency Inc. with CU300,000 during 20X5. Government A subsequently transfers 1,000 metric tons of rice to Aid Agency Inc. on January 12, 20X5. The transfer of the rice takes place in one of the ports of the transferor nation. According to the details of the funding agreement between Aid Agency Inc. and Government A, the rice is valued at the previously agreed amount of CU300 per ton, with the result that the transfer of 1,000 metric tons of rice fully discharges Government A's financial commitment of CU300,000. During February and March 20X5, Aid Agency Inc. provides the rice to a network of local distribution agencies in Nations B and C in order to meet the needs of starving people.

IG45. On January 12, 20X5, the market price of 1,000 metric tons of rice was: CU280,000 in Government A's nation; CU250,000 in the international

Appendix

commodities market; CU340,000 in recipient Nation B; and CU400,000 in recipient Nation C.

- IG46. The fair value of the rice at the time of the donation must be determined to measure the revenue that Aid Agency Inc. recognizes. The financial agreement between the donor and the aid agency, which allows the rice to be valued at CU300 per metric ton, depends on a private agreement between the two parties, and does not necessarily reflect the fair value of the rice. Both Aid Agency Inc. and Donor Government A have the option of purchasing the rice on the world market at the lower price of CU250,000. The market prices for individual countries appear open to fluctuation – either as a result of trade barriers or, in the case of recipient countries, temporary distortions due to severe food shortages, and may not reflect a transfer between a knowledgeable willing buyer and a knowledgeable willing seller in an orderly market. Therefore, the world market price of CU250,000 is the most reliable and relevant reflection of fair value for the donated rice. Aid Agency Inc. recognizes an increase in an asset (rice inventory) and revenue of CU250,000 in its general purpose financial statements for the year in which the transfer is received.

Disclosure of Services In-kind not Recognized (paragraphs 98–102, 108)

- IG47. A public hospital's (reporting entity) accounting policies are to recognize voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital 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.
- IG48. 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

Appendix

community care facilities in the region. The hospital does not recognize the services in-kind 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.

Contribution from Owners (paragraphs 37–38)

- IG49. In 20X0 the neighboring cities of Altonae, Berolini and Cadomi form the Tri-Cities Electricity Generating Service (TCEGS) (reporting entity). The charter establishing TCEGS is binding on the city governments and provides for equal ownership, which can only be changed by agreement. The cities contribute CU25 million each to establish TCEGS. These contributions satisfy the definition of a contribution from owners, which the entity recognizes as such. The charter also provides for the cities to purchase the output of the TCEGS in proportion to their ownership. The purchase price is equal to the full costs of production. In 20X9, the city of Berolini gives approval for the construction of an aluminum smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.
- IG50. When the amendment to the charter becomes binding, TCEGS will recognize an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

Grant Agreement Term not Requiring Recognition of a Liability (paragraphs 20–25)

- IG51. National Park Department (reporting entity) of Country A receives a grant of CU500,000 from the bilateral aid agency of Country B. The grant agreement stipulates that the grant is required to be used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. The terms of the grant agreement are enforceable in the courts of Country A, and in international courts of justice. This is the thirteenth year that National Park Department has received a grant of this type from the same transferor. In prior years, the grant has not been used as stipulated, but has been used to acquire additional land adjacent to national parks for incorporation into the parks. National Park Department has not conducted any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.
- IG52. National Park Department analyzes the transaction and concludes that,

Appendix

although the terms of the grant agreement are enforceable, because the bilateral aid agency has not enforced the condition in the past, and given no indication that it ever would, the terms have the form of a stipulation and condition, but not the substance. National Park Department recognizes an increase in an asset (cash in bank) and grant revenue; it does not recognize a liability.

Disclosures Made in the Financial Statements of Government A (paragraphs 106–108)

IG53. For the year ended December 31, 20X2, Government A prepares and presents financial statements prepared in accordance with IPSASs for the first time. It makes the following disclosures in its financial statements:

Statement of Financial Performance		
	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Non-Exchange Transactions		
Taxation Revenue		
Income Tax Revenue (notes 4 and 8)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (notes 6 and 9)	XX	XX
Transfer Revenue		
Transfers from Other Governments (note 7)	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (notes 15 and 16)	X	X
Statement of Financial Position		

Appendix

Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers receivable from Other Governments (note 7)	X	X
Noncurrent Assets		
Land (note 11)	XXX	XXX
Plant and Equipment (notes 12 and 14)	XX	XX
Current Liabilities		
Liabilities recognized under transfer arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements

Accounting Policies

Recognition of Revenue from Non-Exchange Transactions

- Assets and revenue arising from taxation transactions are recognized in accordance with the requirements of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. However, the Government

Appendix

takes advantage of the transitional provisions in that Standard in respect of income taxes and estate taxes.

Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 4 and 6).

2. Assets and revenue arising from transfer transactions are recognized in the period in which the transfer arrangement becomes binding, except for some services in-kind. The government recognizes only those services in-kind that are received as part of an organized program and for which it can determine a fair value by reference to market rates. Other services in-kind are not recognized.
3. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the Government recognizes a liability until the condition is fulfilled.

Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions

Taxes

4. Income tax revenue is measured at the nominal value of cash, and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accruals basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended December 31, 20X4. The Government does not recognize any amount in respect of income taxes receivable.
5. Assets and revenue accruing from goods and services tax are initially measured at the fair value of assets accruing to the government during the reporting period, principally cash, cash equivalents, and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year and other amounts estimated to be due to the government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

Appendix

Goods and services taxes receivable is the estimate of the amount due from taxes attributable to the reporting period that remain unpaid at December 31, 20X2, less a provision for bad debts.

6. Estate tax of 40% is levied on all deceased estates; however, the first CU400,000 of each estate is exempt from the tax. Assets and revenue from estate taxes are measured at the nominal value of the cash received during the reporting period, or the fair value as at the date of acquisition of other assets received during the period, as determined by reference to market valuations or by independent appraisal by a member of the valuation profession.

Transfer Revenue

7. Assets and revenue recognized as a consequence of a transfer are measured at the fair value of the assets recognized as at the date of recognition. Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset. Non-monetary assets are measured at their fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognized when a binding transfer arrangement is in place, but cash or other assets have not been received.

Taxes not Reliably Measurable in the Period in which the Taxable Event Occurs

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, to develop a model to indirectly measure taxation revenue in the period in which taxpayers earn income. The government estimates that it will be able to reliably measure income tax on an accruals basis using the model for the reporting period ending December 31, 20X4.
9. In respect of estate taxes, due to current high levels of noncompliance with the law, the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to it conditional upon it building a public

Appendix

hospital. As at December 31, the Government had received a cash payment, however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to Restrictions

11. Land with a fair value of CUXX,000 was donated during 20X2, subject to the restriction that it be used for public health purposes and not be sold for 50 years. The land was acquired by the transferor at a public auction immediately prior to its transfer, and the auction price is the fair value.
12. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated in 19X2 to an art gallery controlled by the Government, and subject to the restriction that it not be sold for a period of 40 years. The painting is measured at its fair value, determined by independent appraisal.

Major Classes of Bequests, Gifts, Donations, and Goods In-Kind Received

13. Transfers are received in the form of gifts, donations and goods in-kind – most notably medical and school supplies (inventory), medical and school equipment, and works of art (classified as equipment). Gifts and donations are received primarily from private benefactors. Hospitals, schools, and art galleries controlled by the Government recognize these assets when control passes to them, usually on receipt of the resources, either cash or plant and equipment. The Government does not accept these transfers with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000.
14. During 20X2, as part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to the Government on condition that it be used by the education department or be returned to Government C.

Services In-kind

15. Hospitals controlled by the government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value, as determined by reference to the medical profession's published schedule of fees.
16. Hospitals, schools, and art galleries controlled by the government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides, and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however, the services provided cannot be reliably

Appendix

measured as there are no equivalent paid positions available in the local markets and, in the absence of volunteers, the services would not be provided. The government does not recognize these services in the statements of financial position or financial performance.

Concessionary Loans (paragraphs 105A to 105B)

IG54. An entity receives CU6 million funding from a multi-lateral development agency to build 10 schools over the next 5 years. The funding is provided on the following conditions:

- CU1 million of the funding need not be repaid, provided that the schools are built.
- CU5 million of the funding is to be repaid as follows:

Year 1: no capital to be repaid

Year 2: 10% of the capital to be repaid

Year 3: 20% of the capital to be repaid

Year 4: 30% of the capital to be repaid

Year 5: 40% of the capital to be repaid

- Interest is charged at 5% per annum over the period of the loan (assume interest is paid annually in arrears). The market rate of interest for a similar loan is 10%.
- To the extent that schools have not been built, the funding provided should be returned to the donor (assume that the donor has effective monitoring systems in place and has a past history of requiring any unspent funds to be returned).
- The entity built the following schools over the period of the loan:

Year 1: 1 school completed

Year 2: 3 schools completed

Year 3: 5 schools completed

Year 4: 10 schools completed

Analysis

The entity has effectively received a grant of CU1 million and a loan of CU5 million (Note: An entity would consider whether the substance of the CU1 million is a contribution from owners or revenue; assume for purposes of this example that the CU1 million is revenue). It has also received an additional grant of CU784,550 (which is the difference between the proceeds of the loan of CU5 million and the present value of the

Appendix

contractual cash flows of the loan, discounted using the market related rate of interest of 10%).

The grant of CU1 million + CU784,550 is accounted for in accordance with this Standard and, the loan with its related contractual interest and capital payments, in accordance with IPSAS 29.

1. On initial recognition, the entity will recognize the following:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Liability		CU1,784,550

2. Year 1: the entity will recognize the following:				
Dr		Liability	CU178,455	
	Cr	Non-exchange revenue		CU178,455
(1/10 of the schools built X CU1,784,550)				
(Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary loans. Comprehensive examples are included in the Illustrative Examples to IPSAS 29).				

3. Year 2: the entity will recognize the following (assuming that the entity subsequently measures the concessionary loan at amortized cost):				
Dr		Liability	CU356,910	
	Cr	Non-exchange revenue		CU356,910
(3/10 schools built X CU1,784,500 – CU178,455 already recognized)				

4. Year 3: the entity will recognize the following:				
Dr		Liability	CU356,910	

Appendix

	Cr	Non-exchange revenue		CU356,910
(5/10 schools built X CU1,784,550 – CU535,365 already recognized)				

5. Year 4: the entity will recognize the following:				
Dr		Liability	CU892,275	
	Cr	Non-exchange revenue		CU892,275
(All schools built, CU1,784,550 – CU892,275)				
If the concessionary loan was granted with no conditions, the entity would recognize the following on initial recognition:				
Dr		Bank	CU6,000,000	
	Cr	Loan		CU4,215,450
	Cr	Non-exchange revenue		CU1,784,550

DISCUSSION PAPER
NON-EXCHANGE TRANSFERS
A ROLE FOR SOCIETAL BENEFIT?
NOVEMBER 2018



European Financial Reporting Advisory Group

© 2018 European Financial Reporting Advisory Group.

This Discussion Paper is issued by the European Financial Reporting Advisory Group (EFRAG) as part of its Research activity. EFRAG aims to influence future standard-setting developments by engaging with European constituents and providing timely and effective input to early phases of the IASB's work. EFRAG carries out this research work in partnership with National Standard Setters in Europe to ensure resources are used efficiently and to promote stronger coordination at the European level. Four strategic aims underpin proactive work:

- engaging with European constituents to ensure we understand their issues and how financial reporting affects them;
- influencing the development of global financial reporting standards;
- providing thought leadership in developing the principles and practices that underpin financial reporting; and
- promoting solutions that improve the quality of information, are practical, and enhance transparency and accountability.

More detailed information about our research activities and current projects is available on the EFRAG website.

DISCLAIMER

EFRAG, while encouraging debate on the issues presented in the Discussion Paper, has not reached a final conclusion on those issues at this stage.

The Discussion Paper invites comment on its proposals via the 'Questions for Respondents' contained in pages 6 to 7.

Such comments should be submitted by 30 April 2019 using the 'Express your views' page on EFRAG website by clicking [here](#) or should be sent by post to:

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium


All comments received will be placed on the public record unless confidentiality is requested.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
QUESTIONS TO CONSTITUENTS	6
CHAPTER 1: OBJECTIVE OF THE PROJECT	8
WHY IS THIS RESEARCH UNDERTAKEN?	8
IS THERE A PROBLEM WITH THE EXISTING GUIDANCE?	9
EXPECTED EFFECTS OF THE REVISED CONCEPTUAL FRAMEWORK	10
CHAPTER 2: SCOPE OF THE PROJECT	12
DEFINITION AND IDENTIFICATION OF NETS	12
SCOPE EXCLUSIONS	13
CHAPTER 3: THE 4-STEP APPROACH	15
STEP 1	16
STEP 2	16
STEP 3	16
STEP 4	18
PERFORMANCE-RELATED CONDITIONS	18
CHAPTER 4: OTHER ASPECTS OF THE APPROACH	21
THE ROLE OF UNCERTAINTY	21
JUDGMENT IN APPLYING THE APPROACH	22
CHAPTER 5: PRESENTATION AND DISCLOSURES	24
APPENDIX 1 - GLOSSARY OF TERMS	25
APPENDIX 2 - ILLUSTRATIVE EXAMPLES	27
EXAMPLE 1 - SCOPE: COMMERCIAL TRANSACTION WITH GOVERNMENT	27
EXAMPLE 2 - EXCLUSION FROM THE PROJECT: TRANSFERS WITH SHAREHOLDERS	28
EXAMPLE 3 - LEVIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET	29
EXAMPLE 4 - TAXATION ARISING AS CONSEQUENCE OF CREDIT MOVEMENTS ON BANK ACCOUNTS	30
EXAMPLE 5 - CAPITAL GRANT: GOVERNMENT GRANT PAID TO AN ENTITY UNDER THE CONDITION THAT THE ENTITY PURCHASES A SPECIFIED ASSET	31
EXAMPLE 6 - INCOME GRANT: GOVERNMENT GRANT PAID TO AN ENTITY UNDER SERVICE CONDITION	32
EXAMPLE 7 - RESEARCH GRANT	33

EXECUTIVE SUMMARY

- 1 When responding to the IASB's 2016 Agenda Consultation, some constituents identified transfers whereby entities do not directly receive (or give) approximately equal value as an area requiring attention. These constituents identified several different transfers, including income taxes, levies, and government grants, as examples in which the nature of the transfers contributed to the difficulties in accounting for them.
- 2 The purpose of the Discussion Paper (DP) is to encourage debate on:
 - a) whether transfers in which an entity either receives or gives value from another entity without directly giving or receiving approximately equal value in exchange (referred to as 'Non-Exchange Transfers' or 'NETs') have differentiating characteristics that could warrant a specific accounting treatment; and
 - b) if a specific accounting treatment is warranted, the possible features of that accounting treatment. The DP therefore explores a comprehensive approach and conceptual basis for the recognition of NETs.
- 3 The objective of the DP is to explore a comprehensive approach for the reporting of NETs. In many cases the approach explored in the DP does not change the accounting outcome under existing requirements but in other cases it may result in recognition of assets and liabilities at an earlier stage.
- 4 EFRAG observed that in such transfers, for at least one of the parties involved the motivation encompasses an implicit goal of 'societal benefit' that goes beyond the maximisation of the proprietary benefits in monetary terms. It is not generally possible to identify specific patterns in which entities receive or contribute to create societal benefits, such as those from the general activity of the Government, and it seems reasonable that many of these occur continuously. This notion of societal benefit is used in the approach explored to develop recognition guidance when NETs do not have other relevant characteristics, such as the existence of performance-related conditions.
- 5 The main focus of the DP is on the timing and pattern of recognition rather than measurement issues such as the use of an expected or more likely outcome.
- 6 The DP describes the factors to consider in assessing whether a transfer qualifies as a NET. This assessment requires judgment based on all information reasonably available to the entity. The DP explains what factors are normally relevant to the assessment, such as the transfer being imposed or the involvement of Government bodies acting in this capacity.
- 7 For the reasons indicated in paragraphs 2.14 and following, it is proposed to exclude from the scope of the project transfers between entities and their majority shareholders in their capacity, income taxes and rate-regulated activities (the last being currently addressed in a separate project by the IASB).

- 
- 8 For NETs in scope, the DP explores an approach with the following characteristics:
- a) transfers may qualify as NETs in full or only partially. Paragraph 2.11 discusses how an arrangement that includes both a non-exchange and a normal commercial exchange should be separated;
 - b) NETs that impose performance-related conditions or are linked to an underlying activity are recognised when the performance-related condition is satisfied or the underlying activity is performed – see paragraph 3.13 below for a discussion of the recognition pattern when the underlying exchange affects the financial position and the financial performance at different times;
 - c) other NETs that do not have these characteristics and occur on a recurring basis are recognised on a straight-line basis between two payment dates. Therefore, for transfers that occur on a recurring basis the approach explored in the DP suggests a straight-line recognition over the period between two payment dates.
- 9 Chapter 4 discusses whether the approach should have symmetrical recognition requirements for cost-generating and income-generating NETs. The DP also discusses the role of uncertainty in the recognition or measurement of NETs (in particular insofar as the transfers in scope are often conditional upon future events, such as the entity being in operation at a certain date, operating over a defined period of time or fulfilling certain conditions).
- 10 Appendix 2 presents a number of examples to illustrate the application of the approach explored in the DP - its scope, exclusions and proposals. The illustrative examples contain, for each fact pattern, a discussion of the accounting under the current IFRS Standards, the changes, if any, involved by the 2018 *Conceptual Framework* and the accounting under the approach explored in the DP.

QUESTIONS TO CONSTITUENTS

EFRAG invites comments on all matters in this DP, particularly in relation to the questions set out below. Comments are more helpful if they:

- a) address the question as stated;
- b) indicate the specific paragraph reference, to which the comments relate; and/or
- c) describe any alternative approaches EFRAG should consider.

All comments should be received by 30 April 2019.

QUESTION 1 - OBJECTIVE OF THE PROJECT

In Chapter 1, the DP presents arguments to support developing an accounting treatment for Non-Exchange Transfers as defined in the document (NETs). NETs include, but are not limited to, levies and Government grants. Although the 2018 *Conceptual Framework* has introduced changes that may address some issues around the treatment of levies, the DP argues that there is need to provide a conceptual basis and a practical approach to accounting for NETs.

Q1.1 Do you agree that NETs have differentiating characteristics that warrant the development of a specific accounting treatment?

QUESTION 2 - SCOPE OF THE PROJECT

In Chapter 2, it is suggested to explore an approach for NETs that are either non-voluntary transfers, or voluntary transfers except those identified in paragraphs 2.14 to 2.21. Chapter 2 describes what is the nature of NETs and what factors would guide an entity is assessing whether a transaction is or contains a NET.

Q2.1 Do you agree with how the scope has been defined? If not, is there a different scope that would provide a better basis for developing a comprehensive approach?

Q2.2 Is the definition of NETs and the guidance around the assessment of their existence sufficiently clear and operational?

Q2.3 Do you agree with the proposed exclusions from the project? In particular, do you think that the approach could be fit also for income taxes?

QUESTION 3 - TRANSACTIONS THAT INCLUDE A NET

The DP suggests that a transaction could include a normal commercial exchange and a NET. Paragraph 2.11 of the DP illustrates three possible methods to allocate the total consideration.

Q3.1 Which of the methods presented in paragraph 2.11 do you support, and why?

QUESTION 4 - APPLICATION OF STEP 2

The DP (paragraphs 3.6 to 3.13) proposes that when transfers in scope arise as a consequence of an identifiable underlying activity, the transfer is recognised when the activity occurs. However, in some case (for instance, the purchase of a depreciable asset) the activity affects the financial position and financial performance of the reporting entity at different times. The DP illustrates two possible approaches to recognising the transfer.

Q4.1 Which of the approaches presented in paragraph 3.13 do you support, and why?

QUESTION 5 - APPLICATION OF STEP 3

The DP (paragraphs 3.15 to 3.22) proposes that NETs that do not fall in either Step 1 or 2 of the approach explored, and are recurring, are recognised progressively between two payment dates. The rationale for this is that the entity is sharing or contributing to a 'societal' benefit. This is assumed to occur in a constant pattern over the period of time, which results in a linear recognition pattern.

Q5.1 Do you agree with the outcome? And do you believe that the notion of 'societal benefit' provides a conceptually adequate basis to support the outcome?

QUESTION 6 - THE ROLE OF UNCERTAINTY

Some of the transfers in scope are subject to conditions. The DP (paragraphs 4.3 to 4.13) discusses if in the presence of conditional uncertainty, recognition of expense-generating and income-generating transfers in scope should be subject to a symmetrical or asymmetrical approach.

Q6.1 Do you think that the recognition of expense-generating and income-generating transfers should be subject to a symmetrical or asymmetrical approach? Please explain your answer.

CHAPTER 1: OBJECTIVE OF THE PROJECT

WHY IS THIS RESEARCH UNDERTAKEN?

- 1.1 When responding to the IASB's 2016 Agenda Consultation, some constituents identified transfers whereby entities do not directly receive (or give) approximately equal value as an area requiring attention. These constituents identified several different transfers, including income taxes, levies, and Government grants, as examples in which the nature of the transfers contributed to the difficulties in accounting for them.
- 1.2 Commercial transactions between independent parties normally have the following features: firstly, both parties have the ability to decide whether to enter into the transfer; and, secondly, it is possible to identify what is exchanged between the parties. Based on this, it is reasonable to assume that when a party engages into a commercial transaction, it has assessed that it is exchanging equal value.
- 1.3 However, in some cases entities engage in transfers that do not have one or both of the normal characteristics of commercial transactions noted in paragraph 1.2, in other words transfers in which:
 - a) it is not possible to identify the goods or services received in exchange for the consideration; or
 - b) the goods or services received and the consideration transferred are of unequal value.
- 1.4 Many, but not all, of these transfers are imposed in the sense that entities do not have the ability to freely elect to enter into the arrangement. Examples of imposed transfers included direct and indirect taxes.
- 1.5 Each feature in the above two paragraphs could be relevant in determining the reporting for these transfers. First, the imposed nature of a transfer may be relevant to define the timing of the recognition. When the entity is unable to avoid the outflow of resources, recognition of a future likely transfer does not create the risk of a future reversal (at least, not a reversal contingent only on the entity's decisions).
- 1.6 Secondly, the lack of an identifiable good or service received may be relevant in assessing the pattern of allocation in profit or loss. In the case of an outflow, cost is normally allocated to depict the consumption of the benefits from a transfer, although it may also reflect the reassessment of previously expected benefits (impairment). If the entity does not receive any goods or services, or is unable to identify them, then a different driver needs to be used.
- 1.7 Thirdly, the exchange of unequal values may be relevant in selecting the measurement basis. Conceptually, an entity that pays consideration without receiving an identifiable good or service and an entity that pays a consideration that is disproportionate to the good or service received are in a similar economic position – in both cases, it would be possible to argue that there is a component that is not a transfer of equal value, and both should be reported similarly.
- 1.8 EFRAG acknowledges that the application of this third feature would require the use of judgment – the imposed nature of the transfer is objectively determinable while the lack of equal value is more subjective, since equal value is different from fair value. We will discuss below in paragraph 2.3 and following what factors can be relevant to the assessment.
- 1.9 We will refer to transfers that have one or more of the characteristics in paragraph 1.3 as Non-Exchange Transfers (NETs) and we will discuss if their nature could require a specific accounting treatment.

- 1.10 If one party is not giving (or receiving) equal value, the question arises on why the transfer occurs and what is the motivation to enter into it. For transfers that are imposed by law, such as taxes, the answer is that the entity does not have the ability to avoid it.
- 1.11 For transfers that are voluntary, EFRAG suggests that for at least one party involved, the motivation encompasses an implicit goal of 'societal benefit' that goes beyond the maximisation of the proprietary benefits in monetary terms. Donations are an immediate example but it could also be an entity providing a low-interest loan to a supplier to develop a research project without future transfer of know-how. In this case, the direct monetary advantage for the resource provider is not maximised (although there can be indirect benefits, like the expectation of reduced purchase costs in future) and it could be argued that there is a societal benefit involved.
- 1.12 If the perspective of both parties involved is considered, then the motivation can be validly applied also to transfers that are imposed. These transfers are usually conducted with Government¹ in its capacity as such and it may be argued that transfers to and from Governments are aimed at contributing to society at large. For instance, when a Government concedes a non-refundable grant to an entity to purchase an asset with low-environmental impact, the aim is to reduce pollution; payments of taxes go to the general Government budget; when an entity is required to build general infrastructure (such as a road) in exchange of a licence to develop a real estate project, this is aimed at improving mobility for the general public; and so on.
- 1.13 In this DP, EFRAG considers that the societal benefits notion can be used in developing recognition guidance for many types of NETs when other characteristics such as the existence of performance-related conditions cannot be identified.
- 1.14 The DP explores a possible approach for accounting for NETs, with a focus on the timing and pattern of recognition. EFRAG acknowledges that, for many (but not all) transactions within the proposed scope, the approach will result in the same accounting outcome as the existing requirements of IFRS Standards. However, the DP explores whether the existing requirements could be improved by developing a more comprehensive and systematic approach for NETs.

IS THERE A PROBLEM WITH THE EXISTING GUIDANCE?

- 1.15 During the IASB 2016 Agenda Consultation, some constituents identified non-reciprocal transfers as an area requiring attention by the IASB. They noted that these transfers may have characteristics that could warrant a specific accounting treatment.
- 1.16 A wide array of such transfers exist and a number of IFRS Standards deal with them on a particular basis. For instance:
- a) IAS 12 *Income Taxes* deals with the recognition and measurement of income taxes including tax incentives;
 - b) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* deals with the accounting for grants, forgivable loans or low interest/interest-free loans;
 - c) IAS 41 *Agriculture* dealt with grants associated with biological assets;
 - d) IFRS 2 *Share-based payment* paragraph 13A specifies that if the identifiable consideration received by the entity appears to be less than the fair value of the instrument granted, typically this indicates that other consideration (i.e. unidentifiable goods or services) has been or will be received by the entity;
 - e) IFRIC 21 *Levies* and IFRIC 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* address the accounting for levies in the financial statements of the entity paying them.

¹ Transfer with shareholders could also be considered as imposed. However, these transfers are not in the scope of this DP

- 1.17 A number of concerns could be raised in relation to the existing guidance. First, not all transfers with such characteristics are directly addressed by existing IFRS Standards. For instance, there is currently no explicit guidance for donations, grants and subsidies from other parties than Government or investment tax credits (excluded from both IAS 12 and IAS 20).
- 1.18 Furthermore, existing IFRS Standards provide different recognition models for particular types of non-reciprocal transfer. For instance, IAS 20 essentially aims at matching the period in which a Government grant income is recognised in profit or loss with the related costs for which the grant is intended to compensate. In contrast, the model for grants in IAS 41 requires to recognise unconditional grant as income when the grant becomes receivable and conditional grant when the condition is satisfied. Therefore, investigating whether a comprehensive approach can be identified could be beneficial.

EXPECTED EFFECTS OF THE REVISED CONCEPTUAL FRAMEWORK

- 1.19 The IASB issued the revised *Conceptual Framework for Financial Reporting* ('2018 Conceptual Framework') in March 2018.
- 1.20 The 2018 *Conceptual Framework* refers to 'non-reciprocal' transactions which it defines as transactions in which an entity gives (or receives) value from another entity without directly receiving (or giving) approximately equal value in exchange. However, it does not contain specific requirements for such transactions. The IASB noted in the Basis for Conclusions that the 2018 Conceptual Framework had been developed without assuming that all transactions are reciprocal exchanges, and that the guidance supporting the liability definition was in particular developed with significant thought given to non-reciprocal transactions.
- 1.21 Under the 2018 *Conceptual Framework* an asset is defined as a 'present economic resource controlled by the entity as a result of past events'. An entity controls an economic resource if the economic benefits arising from that resource flow to the entity rather than another party. In the 2018 *Conceptual Framework*, the aspect of control does not imply that the resource will produce economic benefits in all circumstances. Consequently, an asset is recognised even when there is a low probability that the asset will generate economic benefits for the entity.
- 1.22 The 2018 *Conceptual Framework* changes the definition of a liability. Under the current proposals, a liability is still recognised only if the entity has an obligation as a result of a past event, but the existence of the obligation is identified when both of the following conditions are met:
- a) the entity has no practical ability to avoid the transfer of economic resources; and
 - b) the entity has received the economic benefits or taken an action that would result in the transfer.
- 1.23 If or when applicable IFRS Standards were to be revised to incorporate the new definition of a liability, the timing and/or pattern of recognition of some liabilities is expected to change. The exact nature and extent of any changes will depend on the detailed guidance developed at Standards-level but the basic point can be demonstrated with the following two examples for levies with different features in relation to the date/period of activity and the date/period of calculation:
- a) Example 1 - a levy is imposed on an entity for generating revenue during a year. The obligating event is when revenues are first generated in 20X2 but the levy is measured in relation to the revenues recognised in the prior period;
 - b) Example 2 – a levy is imposed on entities for being in operation on the last day of the year. In this case the activity date is the last day of the reporting period. The measurement is based on the net assets at the end of the period.

- 1.24 In both examples above, the entity does not have the practical ability to avoid the transfer, as the only way would be to stop its operations before the date specified in the regulation. In relation to the second criterion in paragraph 1.22b:
- a) in Example 1, the activity providing economic benefits is the generation of revenues in the prior year. Therefore, it seems that under the 2018 *Conceptual Framework* the liability to pay the levy would be progressively accrued during the prior year;
 - b) in Example 2, where the amount to be paid is based on net assets at the reporting date, it is less clear how to identify the moment when the entity takes the action that creates the obligation. It could either be argued that recognition would still be deferred until that date as under IFRIC 21, or that the entity has conducted activities leading to changes in that balance during the full year and progressive accrual of the obligation would better represent how the obligation has arisen.
- 1.25 EFRAG considers that, without further articulation at the IFRS Standards level, assessing if the entity has ‘taken an action that would result in transfer an economic resource’ or has ‘no practical ability to avoid’ a transfer will be judgmental.
- 1.26 EFRAG acknowledges that the role of the *Conceptual Framework* is not to develop guidance on specific matters but rather to provide a basis to assist the IASB in the development of future IFRS Standards and in its review of existing IFRS Standards. In that context, EFRAG observes that the IASB is undertaking a research project on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. At this stage, it is not clear that the revised definition of a liability included in the 2018 *Conceptual Framework* will help providing an answer for all types of transactions considered in this DP.
- 1.27 EFRAG considers that the approach explored in the DP provides both a conceptual basis and a practical approach suitable for these transfers. In particular, our suggestion to consider the notion of societal benefit could be helpful in applying the notion of ‘economic benefits’ in the revised definition of a liability.

CHAPTER 2: SCOPE OF THE PROJECT

DEFINITION AND IDENTIFICATION OF NETS

- 2.1 This DP refers to Non-Exchange Transfers (or 'NETs') as transfers where an entity either receives value from another party (or gives value to it) without directly giving (receiving) approximately equal value in exchange.
- 2.2 This DP explores an approach for transfers that meet the definition of NETs and:
 - a) are non-voluntary, i.e. the entity does not have the discretion to decide whether to enter into the transfer; or
 - b) are voluntary except those identified in paragraphs 2.14 to 2.21.
- 2.3 When an entity receives resources and provides no or nominal consideration directly in return, it is straightforward to determine that the transfer is a NET. Other transfers may involve both exchange and non-exchange components. An entity would have to assess whether the transfer is or contains a NET.
- 2.4 An exchange of equal value is assessed from the perspective of the entities, and not from the perspective of a generic market participant. When the fair value of the consideration exactly equals the fair value of the goods or services exchanged, this can be assumed to be an exchange of equal value. When this is not the case, the transaction may still be an exchange of equal value from the perspective of the parties.
- 2.5 For instance, a supplier may decide to extend a commercial discount to a new or existing client to enhance the commercial relationship. In that case, the supplier has assessed that, once the value of the commercial relationship is included, the transaction is still an exchange of equal value (although the fair value of the price paid by the customer does not equal the fair value of the performance of the supplier).
- 2.6 EFRAG acknowledges that determining whether a transaction contains a NET will not be straightforward. This leads to a question of how much effort and analysis an entity should be expected to undertake to identify a NET component in an exchange transactions. For example, entities might be expected to take into account all information reasonably available but not be expected to undertake an exhaustive analysis of each transactions. EFRAG considers that such an approach is consistent with recently issued IFRS Standards, for instance IFRS 17 *Insurance Contracts* in relation to the identification of an investment component.
- 2.7 Certain facts and circumstances would normally help in the assessment, NETs frequently involve Governments or Government bodies in their capacity as such. This is not an essential feature, but the involvement of the Government is an indication that the parties are not meant to maximise their proprietary economic benefit. The Government body may require the entity to provide resources at less than equal value to pursue a societal benefit; or may transfer resources to the entity to promote it.
- 2.8 In a non-voluntary NET, it is often the case that it is hard to determine if the entity receives an identifiable good or service. Instead, the entity benefits from the availability of general services provided by the Government to the society. Types of transfers that would fall into this category are: income taxes, levies and other taxes such as consumption taxes, property taxes, social insurance taxes, emission rights.
- 2.9 Another indicator that a transaction is or includes a NET is the tripartite nature of the arrangement. For instance, under a Government grant arrangement, the beneficiary is generally receiving resources from one party and providing services to other parties, such as the general public. In a levy, the entity may be paying the levy to a Government body and receiving indirect benefits from the operation of another party.

- 2.10 In a voluntary NET, the entity participating is often subject to stipulations (conditions or restrictions). As discussed below, these stipulations can provide a basis for recognition basis of the transfer. Types of voluntary transfers include Government grants, donations, forgivable or low-interest loans.
- 2.11 When a transaction includes a normal commercial exchange and a NET, EFRAG has considered three possible alternatives:
- a) the entity should always allocate the full amount to the normal commercial exchange and account for it under the applicable Standard. This solution reduces complexity and would result in more transfers being treated as if they were normal commercial exchanges. However, an impairment issue arises if the transfer involves the purchase of an asset for more than fair value;
 - b) the entity should allocate the full amount to the predominant component of the transfer. The entity would need to identify the predominant component, which may be possible to do with a qualitative assessment. If the NETs were predominant, the entity would then apply the 4-step approach as described in Chapter 3 (unless the transfer is excluded from the project). However, this would imply that the entity may not recognise an exchange transaction or may still create a potential impairment issue;
 - c) the entity should allocate the amount to the different components using the guidance in IFRS 15 *Revenue from Contracts with Customers*. Since the NET could not be measured directly, the entity would apply the residual method. The entity would then apply the 4-step approach to the identified NET (unless the transfer is excluded from the project). This solution would provide the most relevant information but would also increase complexity.
- 2.12 The resource provider may receive value indirectly by sharing a societal benefit. Such societal benefits can include social insurance, social security, social assistance, education, health, or military services. NETs can also arise with certain social or environmental policies which may not directly relate to the delivery of goods or services but rather observe a particular behaviour or course of actions.
- 2.13 In conclusion, an element of contribution to or sharing of a societal benefit can be identified in many NETs. In the approach explored in the DP, this feature is also used as a basis for recognition when other characteristics such as the existence of performance-related conditions cannot be identified.

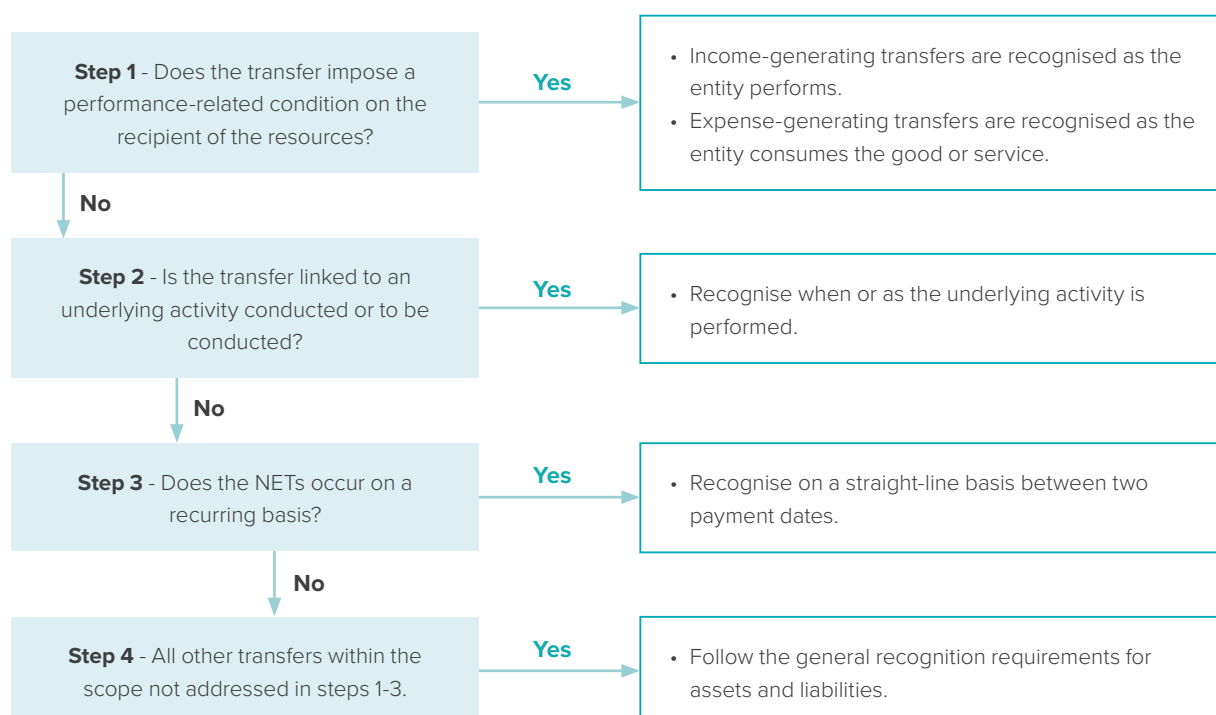
SCOPE EXCLUSIONS

- 2.14 In EFRAG's view, the approach explored in the DP and specifically the societal benefit notion could be helpful in developing guidance for many types of NET. However, EFRAG decided to exclude certain types of NET from its initial analysis for various different reasons explained below.
- 2.15 Majority shareholders have the legal right to direct the entity into a transfer, and for some of these transfers it may be difficult to assess if the consideration exchanged is at arm's length, although in many jurisdictions there may be limitations to the majority shareholders to carry out transfers that are not at arm's length.
- 2.16 EFRAG decided to exclude these transfers because the main focus of this DP is the timing and pattern of recognition. The issues around transfers between an entity and its majority shareholders in their capacity, or transfers between entities under common control, are more around the measurement and (assuming that fair value is selected as the measurement basis) the presentation of the difference between fair value and the consideration exchanged, if any.

- 2.17 Rate-regulated activities as defined in the active IASB project may include some transfers that would fall within the proposed scope. This is because rate regulation may include transfers that have a societal objective – i.e. regulation of tariffs for essential public goods and services. Additionally, on a single transaction basis, rate regulation may result in transfers other than of equal value to different customers. Considering the upcoming publication of a consultation document by the IASB, EFRAG has decided to exclude these activities from the project.
- 2.18 EFRAG has also considered the possible interactions of its approach with income taxes. Conceptually, a similar outcome for income taxes and recurring levies does not seem problematic, since both fund public services.
- 2.19 However, EFRAG notes that current issues around income taxes are more related to measurement – especially for deferred taxes. We are not aware of concerns about the timing and pattern of recognition for income taxes.
- 2.20 Moreover, the application of the approach explored in the DP may affect the measurement of income taxes in interim periods, compared to the current requirement. IAS 34 *Interim Financial Reporting* requires an entity to apply the effective income tax rate expected for the year to the result before tax at the interim reporting date.
- 2.21 Considering the focus of this DP, and that EFRAG is unaware of current concerns about the IAS 34 approach to income taxes in interim periods, at this stage EFRAG is proposing to exclude income taxes from the scope.

CHAPTER 3: THE 4-STEP APPROACH

- 3.1 This chapter explores a comprehensive approach to the reporting of NETs. The key features are the following:
- a) transfers may fall within the proposed scope in full or partially. See paragraph 2.11 for a discussion on how an arrangement that includes both a NET and a normal commercial exchange should be separated;
 - b) NETs may impose *performance-related* conditions or be *linked to an underlying activity*. If this is the case, they are recognised when the performance-related condition is satisfied or the underlying activity is performed – see paragraph 3.13 below for a discussion of the recognition pattern when the underlying exchange affects the financial position and the financial performance at different times;
 - c) other NETs that *occur on a recurring basis* are recognised progressively over time to reflect the notion of contributing to, or sharing in, ‘societal benefit’.
- 3.2 Appendix 2 presents a number of examples to illustrate the application of the approach explored – its scope, exclusions and proposals. For each fact pattern, EFRAG has also described the existing accounting treatment and how it may change under the 2018 *Conceptual Framework*.
- 3.3 For clarity, the steps are presented consecutively although some steps may be combined. For instance, a NET that meets the characteristics in both the first and second step shall be treated as described under the first step.



STEP 1

- 3.4 Step 1 of the approach applies to NETs that impose a performance-related condition on the recipient of the resources. In that case, the entity is either paying for an identified good or service, or being compensated for providing one. These transfers are recognised following the usual requirements:
- a) income-generating transfers are recognised as the entity performs; and
 - b) expense-generating transfers are recognised as the entity consumes the good or service.
- 3.5 Often income-generating NETs such as Government grants are subject to conditions and stipulations. If all conditions were deemed to represent a performance obligation, then most income-generating NETs would fall within Step 1. EFRAG considers that not all conditions or stipulations constitute performance-related conditions. Paragraphs 3.25 to 3.39 discuss characteristics that could be considered to determine whether conditions or stipulations attached to transfers can be considered as performance-related conditions.

STEP 2

- 3.6 Step 2 of the approach applies to NETs that are linked to an identifiable underlying activity (or set of activities) conducted or to be conducted by a specified party. These transfers are recognised as that underlying activity occurs.
- 3.7 The activity is identifiable when it is possible to assess if and when it has been completed. The activity is not identifiable when the transfer arises as a consequence of general business activities, passage of time or operating in a particular jurisdiction or market at a particular date.
- 3.8 Examples of transfers that would be treated under Step 2 include:
- a) taxes on sales;
 - b) grants related to the purchase or construction of a long-term asset;
 - c) levies due on cash receipts from suppliers (in that case, the identifiable activity is to be conducted by a third party); or
 - d) some voluntary contributions to unrelated parties – for instance, an entity may be co-funding a research projects without a final transfer of know-how.
- 3.9 The counterparty of the NETs may be different from the counterparty of the identifiable activity.
- 3.10 The approach explored in the DP relies on the premise that the activity (often an exchange transaction) is the event that gives rise to the transfer and may be the main purpose for the resource provider to engage into the transfer. The approach suggests the accounting for the NET is ‘anchored’ to that exchange transaction.
- 3.11 When the underlying activity affects the financial position and performance of the entity in two different periods the question arises as whether the recognition of the NET should occur at the time the identifiable activity affects the financial position of the entity or its financial performance.

- 3.12 For instance, an entity may receive a grant to invest in energy-saving equipment. The income from the NET would fall in the Step 2 if the condition is not deemed to be a performance-related condition, because the income is arising from an underlying activity (in this case an exchange transaction). The question arises as to whether the entity recognises the grant income when the asset is recognised (impact in the financial position) or as the asset is depreciated (impact on the financial performance).
- 3.13 EFRAG has identified two possible alternatives:
- a) the recognition of the NET income or expense should be strictly based on the terms of the underlying activity. In the example, if the terms refer to 'purchase' the income should be recognised when the purchase is recognised, while if the terms refer to 'purchase and use' the income should be recognised as the asset is depreciated;
 - b) when the underlying activity determines the amount of the transfer at one date but affects profit or loss at a different date, the recognition of the NET income or expense should give prominence to the latter. This approach would be based on the notion that the NET income or expense is consideration for a 'societal' component (not directly identifiable) that the entity receives or provides over a period of time. Under this alternative, Step 2 and Step 3 are substantially similar: the difference is that the date of the underlying activity is conducted is used at the place of the payment (or measurement) date.
- 3.14 Illustrative Example 4 in Appendix 2 addresses a levy imposed on payments to suppliers. While the obligating event is the payment, judgment may be required to assess whether the underlying 'activity' to consider is the original commercial transaction(s) entered into (i.e. sale or purchase) or its settlement (i.e. the bank movement).

STEP 3

- 3.15 Step 3 of the approach applies to NETs that do not impose performance-related conditions (Step 1) and are not linked to an underlying identifiable activity or set of activities (Step 2). For these, the approach explored in the DP links the recognition to the notion of 'societal benefit' that has been introduced in paragraph 1.11 due to the lack of other characteristics.
- 3.16 It is not possible to define exactly the pattern in which entities generate or consume 'societal benefits', such as the benefits of the general activity of a Government. It seems reasonable to assume that many of these are consumed or received continuously: education, security, infrastructures, judicial system.
- 3.17 The approach explored in the DP results in a recognition of the NETs that reflects the assumed (continuous) pattern of consumption or contribution to societal benefits. Given that the actual pattern is not observable, the DP proposes a straight-line recognition over the period between two payment dates. In those cases where the actual amount to be paid (or received) is known only at or after the payment date, an entity would need to accrue based on the best estimate of the payment and true-up at the payment date.
- 3.18 Conversely, when the entity receives resources at regular intervals and is not required to act in a specific way, it may be argued that the transfer is intended to compensate the benefit created by the entity's activity to the public at large.
- 3.19 EFRAG observes that for these transfers progressive recognition of NETs between two subsequent payment (or measurement) dates is considered by many to be the appropriate outcome. However EFRAG observes that this is not the result of a link to the pattern of receipt or consumption of an identifiable asset or service.

- 3.20 EFRAG however observes that a similar straight-line allocation over a period when there is no clear evidence of a better or different pattern of consumption would not be a new concept as it is already allowed under some IFRS Standards for instance:
- a) IAS 38 *Intangible Assets* requires to amortise using a straight-line method, if that pattern cannot be determined reliably;
 - b) when dealing with payments conditional on a service condition, IFRS 2 requires a presumption that the services will be received on a straight-line basis over the vesting period.
- 3.21 On that basis, the approach would result in a progressive recognition over a period:
- a) between two payment (or measurement) dates for cost-generating transfers; and
 - b) over the period designated by the applicable law or regulation, for income-generating transfers.
- 3.22 In the case of recurring payments such as annual levies, a question arises as to the relevant time horizon to accrue for a liability. The approach explored in the DP retains the view in the 2018 *Conceptual Framework* that neither economic compulsion nor the going concern principle are sufficient in themselves to imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

STEP 4

- 3.23 Step 4 applies to all NETs in scope that are not addressed by Step 1 to 3. Although the 'societal benefit' notion could be relevant also for these, it is not possible to define a reference period and recognition of the income/expense should follow the recognition of the asset/liability under the requirements in IFRS Standards. Often, this will result in immediate recognition of the NET income or expense.
- 3.24 Typically, this category will encompass transfers such as some one-off levies, penalties and fines, and donations.

PERFORMANCE-RELATED CONDITIONS

- 3.25 Step 1 uses the notion of a performance-related condition.
- 3.26 EFRAG observes that IAS 20 and IAS 41 provide little guidance about what is meant by unconditional or conditional in the context of grants and similar transactions. Further guidance can be found in International Public Sector Accounting Standards such as IPSAS 23 *Revenue From Non-Exchange Transactions (Taxes And Transfers)* which operates a distinction between two forms of stipulations contained in grants and similar Government assistance:
- a) 'restrictions' that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty or some form of redress against the recipient by, for example, taking the matter to a court or other tribunal, or through an administrative process;
 - b) 'conditions' that require that the future economic benefits or service potential embodied in the asset is consumed by the recipient as specified or those future economic benefits or service potential must be returned to the transferor.

- 3.27 The recipient of grants and similar benefits subject to conditions, as defined above, incurs a present obligation when it initially gains control of the transferred resource. This is because the recipient must either deliver particular goods or services to third parties or return to the transferor future economic benefits or service potential.
- 3.28 Some conditions are linked to the operations of the entity (e.g. receiving a grant to undertake research in a specified area). Such conditions are conceptually similar to the notion of performance obligation in IFRS 15, and therefore it may be argued that the requirements in that Standard could apply to such transfers.
- 3.29 A 'performance obligation' in IFRS 15 is defined as a promise to transfer goods or services to the customer, which is the party that has contracted with the entity and is committed to pay consideration. For NETs, the entity may be required to perform to a party other than the party paying the consideration. So, the definition of performance obligation under IFRS 15 is narrower than 'performance-related condition' for a NET.
- 3.30 In this regard, EFRAG observes, that both the International Public-Sector Accounting Standard Board (IPSASB) and the US Government Accountant Standard Board (GASB) have ongoing projects exploring how a performance obligation approach could be applied to transactions with Governments, using the IFRS 15 definition as the starting point with appropriate modifications made for the public sector.
- 3.31 The following paragraphs consider characteristics which could be considered to assess whether conditions attached to a transfer include performance-related conditions.

The conditions must have substance

- 3.32 A term in a transfer agreement that requires the entity to perform an action that it has anyway no alternative but to perform, may lead to conclude that the term is in substance neither a condition nor a restriction and does not impose on the recipient entity a performance-related condition. An example of that would be a general condition of compliance with applicable laws.

The conditions must have economic effects for the grantee if not complied with

- 3.33 The recipient must incur a present obligation to transfer future economic benefits or service potential to third parties (including the general public) when it initially gains control of an asset subject to a condition. As such the recipient is unable to avoid the outflow of resources (not complying with the conditions also has economic effects for the recipient). An example of that would be a condition that obliges the recipient to either use the funds to provide services within a certain period or return them to the grantor. If the recipient is not required to either consume the future economic benefits or service potential or else to return to the transferor future economic benefits or service potential, then the stipulation fails to meet the definition of a condition and would not create any performance-related condition.

The conditions must be sufficiently specific

- 3.34 Government assistance to entities can be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Conversely, some grants are more closely related to specific actions by the recipient, such as purchasing an asset or hiring a certain number of employees.
- 3.35 Conditions can vary greatly, from general promises that resources received will be used for the ongoing activities of a resource recipient to specific promises about the type, quantity and/or quality of services to be delivered. Sometimes the specificity of services promised to be delivered by a resource recipient and agreed by the resource provider are implied rather than explicitly stated.

- 3.36 There might be agreements where delivery of services may not be specific or distinct so as to identify a performance-related condition (e.g. where the resource recipient promises to a resource provider that it will use transferred resources to finance a range of possible activities). In such agreements, it might be difficult to know what services have been transferred and if and when any performance-related conditions are fulfilled.

Fulfilment of the conditions must be liable to be assessed

- 3.37 Linked to the point above, the recipient should be able to assess whether the performance-related condition has been fulfilled. There needs to be a minimum level of details and specification of such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur.
- 3.38 Performance is generally monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly the case when a condition provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition.

The realisation of the condition must be within the control of the entity

- 3.39 A condition such as an event outside the control of the entity would not create performance-related condition (e.g. a grant repayable if global market conditions or global economy improves).

CHAPTER 4: OTHER ASPECTS OF THE APPROACH

THE ROLE OF UNCERTAINTY

- 4.1 The application of Step 2 and 3 outlined in Chapter 3 may result in assets and liabilities being initially recognised at an earlier stage than under the existing IFRS requirements. This is because current requirements result in assets being recognised only when the entity has acquired control, and liabilities being recognised only when an obligation has been incurred.
- 4.2 Consumption of or contribution to societal benefit has a connotation of duration, while control or obligation may arise at a point in time – so the advantage of using the ‘societal benefit’ notion is to enable a progressive recognition. The implication is however that the role of ‘control’ and ‘obligation’ in recognition could be weakened.
- 4.3 If there was no uncertainty about the eventual occurrence of the transfer – in other words, if the entity was certain to pay or receive the resources – the approach explored in the DP would only affect the timing and/or pattern of recognition. However, as noted above, the transfers in scope are often conditional on future events, such as the entity being in operation at a certain date, keep operating over a defined period of time or achieving certain thresholds. In such conditions of uncertainty, the approach explored in the DP could cause an entity to start recognising a transfer that ultimately fails to occur.
- 4.4 The implication of this would be the need to reverse the accounting entry. Such reversals have a negative informative value because they create accounting noise in the performance of the entity and lower the predictive value of information.
- 4.5 Two questions arise around how to treat uncertainty:
 - a) should this conditional uncertainty play a role in reference to the recognition or should it be incorporated in the measurement of the transfer?
 - b) should the answer be the same for expense-generating transfers (such as levies) and income-generating transfers (such as grants)?
- 4.6 We will illustrate the first question with an example. Under the approach explored in the DP, an entity would accrue the liability for a levy recurring on an annual basis between two payment dates. Assume that the payment of the annual levy depends on the entity meeting a certain threshold of net assets at the end of the period. In that case there is a condition of uncertainty².
- 4.7 If this condition is incorporated in the recognition, the entity would not start recognising the liability until the threshold is reached - in that case the outcome would differ from the proposed treatment of the ‘certain’ levy. If instead the uncertainty is incorporated in the measurement, the entity would still start recognising the levy from the same date and would reflect the likelihood of meeting the threshold in the amount of the provision.
- 4.8 EFRAG suggests that for the expense-generating transfers in the scope of this project, this condition of uncertainty would play a role in measurement, not in recognition. This implies that, in certain circumstances, the initial accrual could be reversed.
- 4.9 In relation to expense-generating transfers, the risk of reversal may be mitigated by the fact that, in most cases, such transfers are non-voluntary.

² Currently, IFRIC 21 paragraph 12 indicates that if the obligating event is the reaching of a minimum threshold, the liability is recognised only after reaching the threshold.

- 4.10 In relation to income-generating transfers, EFRAG understands that some would prefer asymmetrical recognition of assets and liabilities. This asymmetrical recognition would follow from the application of prudence. The implication of this asymmetry would be to maintain an essential role for control in relation to the recognition of an asset.
- 4.11 On the other side, control of the resource may occur at any moment, and earlier than the payment date. In the absence of an identifiable performance-related condition, a model based only on control as the sole driver of recognition would lead to an immediate recognition of the income. This outcome occurs under IPSAS 23 and has raised concerns. The IPSASB has published a Consultation Document where it is suggesting - as one possible alternative - that all stipulations are considered to be like performance-related conditions. EFRAG observes that this option would result in practice in applying an approach similar to IFRS 15 to NETs that are income-generating transfers.
- 4.12 EFRAG has identified two possible alternatives:
- a) the first is to apply a symmetrical approach under which the societal benefit takes precedence over the control notion. Under this alternative, in some circumstances entities may start to recognise income (and assets) at an earlier date than under the 2018 *Conceptual Framework*. In this alternative, the uncertainty about receiving the resource would be incorporated in the measurement;
 - b) the second is to require a certain probability threshold as a condition to recognise income (and assets) for income-generating transfers under Step 2 and 3. This would introduce an element of asymmetry in the approach which would reflect a notion of asymmetrical prudence. The threshold could be more or less high - 'probable', 'more likely than not' or 'not unlikely' - and would introduce an element of judgment and a risk of inconsistent application.
- 4.13 Alternative 4.12a is consistent with a view that neutrality in reporting provides the best information content. Alternative 4.12b could be perceived as having attractive characteristics compared to neutrality in particular circumstances. For instance, if the recognition of an uncertain asset were material to the ability of the entity to continue as a going concern, alternative 4.12b would ensure that all NETs assets were treated uniformly and therefore all entities with these assets were comparable.

JUDGMENT IN APPLYING THE APPROACH

- 4.14 EFRAG acknowledges that the application of the approach explored in the DP involves a certain degree of judgment.
- 4.15 The approach explored in the DP requires to distinguish between transfers where a performance-related condition can be identified (for which normal recognition requirements would apply) and those where it does not. This requires identifying if the payer is obtaining an identifiable good or service in exchange for the consideration transferred. This requires an unavoidable element of judgment.
- 4.16 For example, in Australia oil and gas companies pay a levy to finance the National Offshore Petroleum Safety and Environmental Management Authority. Given the nature of activities of the regulator, it may be argued that the entity paying the levy is receiving independent expert advice on their risk management plans. Alternatively, the regulations could have mandated that entities have these plans audited. If this interpretation is retained, the transfer would qualify for Step 2 and the liability would be recognised as the entity receives the advice. If instead, it is concluded that there is no identifiable service received (and the entity is simply paying to fund the regulator, but not in exchange for something specific), then the transfer would qualify for Step 3 and be recognised between two settlement dates.

- 4.17 As noted in paragraph 2.18 and following, EFRAG excluded income taxes from the project scope. However, EFRAG considered the potential implications of including income tax in the scope. There does not seem to be any for annual reporting; but the pattern of recognition in interim periods would be different depending on whether income tax would be treated under Step 2 or 3.
- 4.18 The condition to apply Step 2 is to assess that income tax is linked to an identifiable activity or of activities. However, the taxable basis is profit and it results from an aggregation of activities and transactions. It is not easy to allocate components of income tax to specific transactions – this would require to compute the tax consequences of each item.
- 4.19 If income tax was treated under Step 3, this would result in a straight-line allocation between two payment dates, like for a levy that is not linked to a specific underlying activity. However, this would result in changing the current requirements in IAS 34, under which income tax for interim periods is computed by applying the effective tax rates expected at year-end to the interim pre-tax income.

CHAPTER 5: PRESENTATION AND DISCLOSURES

- 5.1 Assets and liabilities recognised under the approach explored in the DP, especially under Step 2 and 3 may warrant a specific presentation and/or disclosure.
- 5.2 Some judgment will be needed when identifying in general transfers that fall within the definition of NETs. Timing of recognition under Step 2 may also require judgment as the identification of the linked exchange will not always be obvious. Paragraph 122 of IAS 1 *Presentation of Financial Statements* requires entities to disclose the judgments other than estimations made in applying accounting policies that have had the most significant effects on the amounts recognised.
- 5.3 Also, transfers under Step 2 may not occur on a regular basis or their size could change (compare a tax on investment disposals versus a recurring levy – the amount of the former may experience higher variance on a year-by-year basis). Separate presentation or disaggregation in the notes, if the amounts are material, could enhance the predictive value of the information.
- 5.4 Recognition of transfers under Step 3 may start when the conditions for the occurrence of the outflow/inflow have not yet fully occurred (in the case of an income-generating transfer, the risk could be mitigated by introducing a probability threshold as discussed in paragraph 4.12 above. This exposes the transfer to a risk of reversal. Separate presentation or disaggregation in the notes, with an indication of the degree and nature of the conditionality, would make the representation more faithful.
- 5.5 The general objective of the information to be separately presented or provided in the notes would be to enable users to evaluate the financial effects of these transfers. The information would include:
- a) the nature and total amount of assets, liabilities, revenue and expense recognised in the period;
 - a) any adjustments to amounts recognised in prior periods;
 - b) a general description of the terms of the transfers, including their measurement basis;
 - c) a description of the unfulfilled conditions attached to the transfers, other contingencies and how they could affect the amounts already recognised (for instance, any penalties or claw-back provisions).
- 5.6 Another area where disclosures may be needed is when a transfer includes both a component that qualifies as a NET and other components that fall outside the scope. As discussed above in paragraph 2.11 above, one possible solution would be that the entity allocates the full consideration to the predominant component. Under this solution, it would be appropriate that the entity discloses the basis to identify the predominant component.

APPENDIX 1 - GLOSSARY OF TERMS

- A1. The purpose of this glossary is to provide general and understandable explanations for the most important terms and definitions used in the DP. Many of the terms are extracted from the International Financial Reporting Standards (IFRS) or the International Public-Sector Accounting Standards (IPSAS) and used with the same meaning. References are indicated to the relevant Standard and paragraph number.

TERMS	DEFINITIONS	SOURCES
Assets	A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.	2018 <i>Conceptual Framework</i> 4.3
Conditions on transferred assets	Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.	IPSAS 23.7
Exchange/ non-exchange transactions/or transfers	Exchange transactions/transfers are transactions/transfers 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. Non-exchange transactions/ transfers are transactions that are not exchange transactions. In a non-exchange transaction/transfer, 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.	IPSAS 23.7
Government	Government, Government agencies and similar bodies whether local, national or international.	IAS 20.3
Government assistance	Action by Government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.	IAS 20.3
Government grants	Assistance by Government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of Government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.	IAS 20.3
Identifiable activity	An activity is identifiable when it is possible to assess if and when it has been completed. The activity is not identifiable when the transfer arises as a consequence of general business activities, passage of time or being operating at a particular date.	EFRAG's DP Par. 3.6 and 3.7
Income Tax	All domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity.	IAS 12.2

TERMS	DEFINITIONS	SOURCES
Levy	<p>A levy is an outflow of resources embodying economic benefits that is imposed by Governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:</p> <p>(a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of IAS 12 <i>Income Taxes</i>); and</p> <p>(b) fines or other penalties that are imposed for breaches of the legislation.</p>	IFRIC 21.4
Liabilities	A present obligation of the entity to transfer an economic resource as a result of past events. An obligation is a duty or responsibility that the entity has no practical ability to avoid.	2018 <i>Conceptual Framework</i> 4.26
Obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.	IAS 37.10
Obligation	An obligation is a duty or responsibility that an entity has no practical ability to avoid. An obligation is always owed to another party (or parties) which could be a person or another entity, a group of people or other entities, or society at large.	2018 <i>Conceptual Framework</i> 4.29
Restrictions (on transferred assets)	Stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified (IPSAS 23).	IPSAS 23.7
Stipulations (on transferred assets)	Terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.	IPSAS 23.7
Taxes	Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and or regulations, established to provide revenue to the Government. Taxes do not include fines or other penalties imposed for breaches of the law.	IPSAS 23.7
Taxable event	Event that the Government, legislature or other authority has determined will be subject to taxation (IPSAS 23).	IPSAS 23.7
Transfer	Act in which an entity receives assets or services or has liabilities extinguished.	EFRAG DP

APPENDIX 2 - ILLUSTRATIVE EXAMPLES

- IE 1. EFRAG has considered in this Chapter the effects of the proposed approach to some of transfers that would be included in the scope of our Research project. For each fact pattern, EFRAG has also described the existing accounting treatment and how it may change under the IASB's 2018 *Conceptual Framework*. EFRAG acknowledges that the *Conceptual Framework* is not itself an IFRS Standard and does not establish accounting requirements directly. Accordingly, any actual changes to accounting treatments would depend on whether and how the revised definitions and other guidance in the *Conceptual Framework* are reflected in new or modified IFRS Standards or Interpretations.
- a) **Example 1** - Scope: Commercial transaction with Government;
 - b) **Example 2** - Exclusion from the project: Transfers with shareholders;
 - c) **Example 3** - Levies arising from participating in a specific market;
 - d) **Example 4** - Taxation arising as consequence of credit movements on bank accounts;
 - e) **Example 5** - Capital grant: Government grant paid to an entity under the condition that the entity purchases a specified asset;
 - f) **Example 6** - Income grant: Government grant paid to an entity under service condition; and
 - g) **Example 7** - Research grant

EXAMPLE 1 - SCOPE: COMMERCIAL TRANSACTION WITH GOVERNMENT

FACT PATTERN

- IE 2. An entity enters into a service agreement to provide monthly payroll processing services to a Government body for one year. The transaction is made on commercial terms (arm's length).

ACCOUNTING UNDER CURRENT IFRS

- IE 3. Exchange transactions with Governments as customers are within the scope of IFRS 15. The fact that the customer is a Government does not change the principles applicable to determine when revenue is recognised.
- IE 4. Under the above fact pattern (derived from Example 13 of IFRS 15):
- a) the promised payroll processing services are accounted for as a single performance-related condition which is satisfied over time in accordance with paragraph 35(a) of IFRS 15 because the customer simultaneously receives and consumes the benefits of the entity's performance in processing each payroll transaction as and when each transaction is processed;
 - b) the entity recognises revenue over time by measuring its progress towards complete satisfaction of that performance condition in accordance with paragraphs 39-45 and B14-B19 of IFRS 15.

2018 CONCEPTUAL FRAMEWORK

- IE 5. No difference expected. Assets are defined as 'present economic resource controlled by the entity as a result of past events' and an economic resource is defined as a right that has the potential to produce economic benefits'.
- IE 6. Paragraphs 4-8 of the 2018 *Conceptual Framework* further clarifies that 'some goods or services (...) are received and immediately consumed. An entity's right to obtain the economic benefits produced by such goods or services exists momentarily until the entity consumes the goods or services'.
- IE 7. In this case, it could be argued that the entity gains control over the resource (i.e. contract revenue) as it performs its obligations under the contract.

APPROACH EXPLORED IN THE DP

- IE 8. Since the transaction is voluntary and occurs on normal commercial terms, the transaction is not within the proposed scope (see paragraph 2.1 above). The entity accounts for the transaction under the applicable IFRS Standards.

EXAMPLE 2 - EXCLUSION FROM THE PROJECT: TRANSFERS WITH SHAREHOLDERS

FACT PATTERN

- IE 9. An entity enters into a CU 100 loan agreement with its majority shareholder at a below-market rate.

ACCOUNTING UNDER CURRENT IFRS

- IE 10. According to IAS 20, the benefit of a Government loan at a below-market rate of interest should be treated as a Government grant. The loan shall be recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

2018 CONCEPTUAL FRAMEWORK

- IE 11. The *Conceptual Framework* requires to distinguish changes in a reporting entity's economic resources and claim that result from that entity's performance and from other events or transactions such as issuing debt or equity instruments. Changes in an entity's economic resources and claims not resulting from financial performance are presented in the statement of changes in equity.
- IE 12. In the case of a loan from a parent to a subsidiary that pays interest at less than the market rate, the difference between the loan amount and the fair value (i.e. the shortfall for the parent company) could typically be considered as an increase in the cost of investment by the parent company and a capital contribution by the subsidiary.

APPROACH EXPLORED IN THE DP

IE 13. As explained in paragraph 2.14 above, EFRAG decided to limit the initial focus of the project to exclude transfers between an entity and its majority shareholders. As a consequence, the entity would not apply the proposals in this DP to the transfer.

EXAMPLE 3 - LEVIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET

FACT PATTERN

IE 14. A Government charges an annual levy of 0.1% of total liabilities at the end of the reporting period. The levy is payable on 1st January of the following year. If the reporting period is longer or shorter than 12 months, the levy is increased or reduced proportionately.

IE 15. It is assumed that there is no separately identifiable asset or service received in exchange for the levy payment.

IE 16. The entity estimates that it will incur an amount of CU 1,000 for the reporting period ended 31 December.

ACCOUNTING UNDER CURRENT IFRS

IE 17. The entity applies IFRIC 21 and identifies what is the obligating event. If the legislation identifies the obligating event as being in business at the reporting date, the entity has no present obligation until that date, even if it is economically compelled to continue operating in the future.

IE 18. In that case, the liability is recognised in full at point in time at the end of the reporting period, if the entity is operating as a bank at that specific date.

2018 CONCEPTUAL FRAMEWORK

IE 19. The 2018 *Conceptual Framework* defines a liability as 'a present obligation of the entity to transfer an economic resource as a result of past events'.

IE 20. Both the following conditions must be fulfilled to recognise a liability:

- a) the entity has no practical ability to avoid payment; and
- b) the entity has received economic benefits or conducted the activities that will or may require transfer of resources.

IE 21. Paragraph 4.44 of the 2018 *Conceptual Framework* further clarifies that '(...) the action taken could include, for example, operating a particular business or operating in a particular market. If economic benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulate over that time'.

IE 22. Judgment is needed to determine whether the entity has already obtained economic benefits at a point in time (i.e. obtained an authorisation to operate), or that it has taken an action (operate in a particular market) that accumulates over time.

APPROACH EXPLORED IN THE DP

IE 23. The transfer is non-voluntary and does not involve an exchange of equal value and therefore falls within the proposed scope. The entity applies the analysis in the DP:

- a) Step 1 - The entity does not identify performance-related condition in the agreement. This is because being in business as a bank does not create a performance condition of its own;
- b) Step 2 - The entity assesses whether the obligation arises as a consequence of a specific underlying activity. The entity notes the activity is not identifiable when the transfer arises as a consequence of general business activities, passage of time or being operating at a particular date;
- c) Step 3 - The entity observes that the transfer is recurring and neither linked to a performance-related condition (Step 1) nor to an identifiable activity or set of activities (Step 2). For these transfers the approach therefore suggests a straight-line recognition over the period between two payment dates. In those cases where the actual amount to be paid is known only at or after the payment date, the entity would need to accrue based on the best estimate of the liability and true-up at the payment date.

EXAMPLE 4 - TAXATION ARISING AS CONSEQUENCE OF CREDIT MOVEMENTS ON BANK ACCOUNTS

FACT PATTERN

- IE 24. The tax regulations in country C apply a transaction tax to all bank transfers. The tax is calculated based on 0.1% of the transfers and is payable the next month.
- IE 25. In December 200Y, an entity purchases an asset from a foreign supplier for CU 1,000,000 with a deferred payment in January 200Y+1. After the bank transfer is processed the entity will be liable to a transaction tax of CU 1,000 (i.e. payable in February 200Y+1 assuming the bank transfer for asset purchase is processed in January).

ACCOUNTING UNDER CURRENT IFRS

- IE 26. The entity applies IFRIC 21 and shall assess what is the obligating event under the legislation, the actual cash transfer or the original commercial transaction. The levy is recognised when the obligating event takes place.

2018 CONCEPTUAL FRAMEWORK

- IE 27. Under the proposed definition of a liability, no present obligation exists until the entity has 'received economic benefits, or taken action and, as a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer'.
- IE 28. The *Conceptual Framework* does not further define the term 'action and judgment would be needed, in the present fact pattern, to assess whether the 'action' taken by the entity is the cash movement or the original commercial transaction. Based on that assessment the levy may be recognised either at the underlying transaction date or at the payment date.

APPROACH EXPLORED IN THE DP

IE 29. The transfer is non-voluntary and does not involve an exchange of equal value therefore falls within the proposed scope. The entity applies the analysis in the DP:

- a) Step 1: The entity assesses that there is no identifiable performance-related condition in the transfer. This is because the levy is not subject to any specific stipulations that would impose any performance to the entity;
- b) Step 2: The entity assesses that the transfer arises as a consequence of an identifiable underlying activity. The entity observes that the levy is triggered by bank payments and recognises the liability as this underlying activity is performed. However, further guidance may be needed to assess whether the underlying 'activity' to consider is the original commercial transaction(s) entered into (i.e. sale or purchase) or its settlement (i.e. the bank movement).

IE 30. These are the journal entries that would apply for the year ended 200Y+1

Option 1: underlying activity is considered to be the purchase of the asset in December 200X

IE 31. The entity would recognise the purchased asset (with the corresponding vendor's liability) as well as a 1,000 liability related to the future bank transfer tax (payable in January the next year):

Option 2: the underlying activity is considered to be the settlement of the liability.

IE 32. No entries regarding the transaction tax as of 31 December 200X. The transaction tax liability and expense are recognised in January 200Y+1.

EXAMPLE 5 - CAPITAL GRANT: GOVERNMENT GRANT PAID TO AN ENTITY UNDER THE CONDITION THAT THE ENTITY PURCHASES A SPECIFIED ASSET

FACT PATTERN

IE 33. A Government provide a grant to an entity under the condition that the entity purchases a specified asset. The grant is fully payable when and only when the qualifying asset is purchased. There are no additional conditions or stipulations.

IE 34. The purchase price of the asset is CU 5,000 and grant amounts to CU 1,000.

ACCOUNTING UNDER CURRENT IFRS

IE 35. The entity applies IAS 20. A grant subject to condition is recognised only when there is 'reasonable assurance that the entity will comply with the condition'.

IE 36. Government grants related to assets can be either:

- a) presented in the statement of financial position as deferred income and recognised in profit or loss on a systematic basis over the useful life of the asset; or
- b) deducted from carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation charge.

2018 CONCEPTUAL FRAMEWORK

IE 37. The 2018 *Conceptual Framework* defines an asset as 'a present economic resource controlled by the entity as a result of past events'. In this case, it could be argued that the entity does not control the resource (grant) until it has complied with the condition and that is the purchase of the asset.

APPROACH EXPLORED IN THE DP

IE 38. The grant is a voluntary transfer for the resource recipient and does not involve an exchange of equal value. The entity concludes that the transfer falls within the proposed scope.

IE 39. Further, the entity applies the analysis in the DP:

- a) Step 1: The entity assesses that there is no performance-related condition. This is because the conditions attached to the grant do not create any performance i.e. identified goods or services to be transferred to the resource provider;
- b) Step 2: The entity assesses that the grant is arising as a consequence of an identifiable underlying activity to be conducted: the grant is conditional only upon the purchase of the qualified asset which is an exchange transaction. The grant would be recognised when the activity is performance that is when the asset is purchased because at that date the entity would have fulfilled all the conditions under the grant agreement.

IE 40. The approach would need to determine whether the grant is taken as a profit, or spread over the depreciation period for the asset (see alternatives considered in paragraph 3.13).

EXAMPLE 6 - INCOME GRANT: GOVERNMENT GRANT PAID TO AN ENTITY UNDER SERVICE CONDITION

FACT PATTERN

IE 41. An entity is entitled to Government grant under the condition that the entity operates for three years in a specific area of the country. The grant is paid through 3 instalments of CU 100 on 1st of January of the following year.

- a) Permutation A: If the entity stops operating in the area, the amounts already received for past periods are however kept and the entity loses the right to receive the grant for the current and future periods (if any). No other conditions are stipulated;
- b) Permutation B: The grant is repayable in full to the Government if the entity fails to comply with the 3-year condition. No other conditions are stipulated.

ACCOUNTING UNDER CURRENT IFRS

IE 42. Under IAS 20, a conditional income grant is not recognised in income until there is 'reasonable assurance' that both (i) the entity will comply with the conditions attaching to it and (ii) the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

IE 43. A grant that does not impose specified future performance-related conditions on the recipient is recognised in income when the grant proceeds are receivable.

IE 44. The grant is recognised in profit or loss 'on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate'.

IE 45. Therefore, in the considered fact patterns:

- a) under Permutation A, the entity would have to assess whether the 3-year period condition has real substance and economic effects since the entity is entitled to retain any grant received at the end of each period regardless of its obligation to operate for 3 years. It could be considered that the entity obtains controls of the CU 100 instalment at the end of each fiscal year as the amount received is not repayable. A CU 100 grant would therefore be recognised at the end of each reporting period;
- b) under Permutation B, the entity would have first to make an assessment as to whether it has reasonable assurance to remain operating in the area until the end of the 3-year period. If the condition is met, it will then have to recognise the cumulative grant over the period, it recognises expenses the related costs for which the grant is intended to compensate.

2018 CONCEPTUAL FRAMEWORK

IE 46. In the 2018 *Conceptual Framework*, assets are defined as 'present economic resource controlled by the entity as a result of past events'. Control is defined as the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it and includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it.

IE 47. In the considered fact pattern:

- a) in the case of Permutation A, grants received for past period are not repayable and it could be considered that the entity controls the grant for year 1 at the end of the first period etc;
- b) in the case of Permutation B, it could be argued that the entity does not control the resource (grant) until the end of the third year when it has performed its obligation to operate.

APPROACH EXPLORED IN THE DP

IE 48. The grant is a voluntary transfer for the resource recipient and does not involve an exchange of equal values. The entity therefore, concludes that the transfer falls within the proposed scope.

- a) under Permutation A: applying Step 1, the entity determines that the grant includes a performance-related condition imposed on the resource recipient; that is the obligation to operate in a specified, under-developed area. The entity concludes that it fulfils its performance-related conditions over 3 years and recognise the grant income accordingly over that period;
- b) under Permutation B: it could be argued that the entity has not fully complied with its conditions until the end of the third year. See above in paragraph 4.12 for a discussion on the role of uncertainty.

EXAMPLE 7 - RESEARCH GRANT

FACT PATTERN

IE 49. A manufacturer of medical devices successfully applied for financial support from a Government to fund research into a particular new type of technology that could lead to improvement in healthcare.

IE 50. The Government agrees to reimburse entity 50% of specified project costs over a two-year period. In accordance with the agreement, the entity must meet specified targets with regards to testing of the technologies being developed. The entity must also prepare six-monthly progress reports. Technologies developed under the agreement remain the property of the manufacturer.

IE 51. The entities incurs projects costs of CU 1,000 and CU 300 in Year 1 and Year 2, respectively.

ACCOUNTING UNDER CURRENT IFRS

IE 52. Under IAS 20 a Government grant is not recognised until there is reasonable assurance that:

- a) the entity will comply with the conditions attaching to it; and
- b) the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

IE 53. The entity will first need to assess whether it has reasonable assurance to meet the specified targets before recognising the grant. If so, the grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

IE 54. In the considered case as the grant is meant to reimburse 50% of specified project costs over two years, grants will be recognised as the expenses they make up for are incurred.

2018 CONCEPTUAL FRAMEWORK

IE 55. The 2018 *Conceptual Framework* defines assets as 'present economic resource controlled by the entity as a result of past events'. Control is defined as the 'present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it.

IE 56. In the fact pattern described, it could be argued that, at the end of year 1, the entity does not control the resource (grant) until it has performed its obligations. As payment was received in advance, the recipient recognises a liability as it incurs a present obligation to transfer future economic benefits.

APPROACH EXPLORED IN THE DP

IE 57. The grant is a voluntary transfer for the resource recipient and does not involve an exchange of equal values. The entity therefore, concludes that the transfer falls within the proposed scope.

IE 58. Applying Step 1, the entity assesses whether the conditions contained in the grant qualify as a performance-related conditions.

IE 59. The entity assesses that, under the grant agreement, no identifiable good or services are transferred (in this case, to the Government) and in particular, the outcome of the research and any technologies developed under the agreement remain the property of the manufacturer.

IE 60. Applying Step 2, the entity assesses that the grant is linked to an underlying identifiable activity; that is its research activity. The entity observes that the grant is subject to requirements to do the research, meet specific targets and report back to the Government. This create a present obligation when it initially gains control of the transferred resource. If not complied with, the grant is returned to the transferor.

IE 61. The receivable and grant revenue will be recognised as the entity fulfils its research obligations over the two-year period. In this specific case, this may coincide, like under current accounting under IAS 20, with the way expenses are incurred over the project. See above in paragraph 4.12 for a discussion on the role of uncertainty.



EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The content of this document is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

EFRAG
aisbl - ivzw

35 Square de Meeûs
B-1000 Brussels
Tel +32 (0)2 210 44 00
Fax +32 (0)2 210 44 01
info@efrag.org



www.efrag.org

Connect with EFRAG on
LinkedIn and Twitter

