

INTRODUCTION TO IPSAS



Expenses

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Social Benefits

Introduction

[IPSAS 42, Social Benefits](#), was issued in January 2019, and has an effective date of January 1, 2023. Early adoption is permitted.

The delivery of social benefits to the public is a primary objective of most governments, and accounts for a large proportion of their expenditure.

As well as social benefits, governments also provide services, for example healthcare and defense. Such services are outside the scope of social benefits; instead they are covered by guidance on *Collective and Individual Services*, which can be found in [Appendix A to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets](#). Collective and individual services are discussed later in this module.



Learning Objective

You are able to:

- Apply the definitions of social benefits and social risks
- Apply the general approach to accounting for social benefits
- Be aware of the insurance approach to accounting for social benefits

IPSAS 42 provides guidance on accounting for social benefits, as defined in the Standard. The definition relies on the concept of social risks, which is also defined in IPSAS 42.

IPSAS 42 permits two approaches to accounting for social benefits – the general approach and the insurance approach.

The insurance approach is not discussed in detail in this module, as IPSAS 42 does not provide detailed requirements for this approach. Instead, entities apply the requirements of insurance accounting included in IFRS 17, *Insurance Contracts*, by analogy. The insurance approach is expected to have limited use by governments, at least initially.



Definitions

Social benefits are cash transfers provided to:

- a) Specific individuals and/or households who meet eligibility criteria;
- b) Mitigate the effect of social risks; and
- c) Address the needs of society as a whole.

Social risks are events or circumstances that:

- a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and
- b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Social Benefits

Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/ or households. Services provided by a public sector entity are not social benefits.

Social benefits are only provided when eligibility criteria (to receive a social benefit payment when it is next paid) are met.

For example, a government may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e. those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where a public sector entity pays a universal basic income to all adult residents.

The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole. The benefit does not need to mitigate the effect of social risks for each recipient.

An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.

Social Risks

Social risks relate to the characteristics of individuals and/or households—for example, age, health, poverty, and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The circumstances that lead to an unplanned or undesired event arise from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the circumstances that lead to an unplanned or undesired event arise from something other than the characteristics of an individual or household.

For example, unemployment benefits are social benefits because the circumstances covered by the unemployment benefit arise from characteristics of the individuals and/or households – in this case a change in an individual's employment status.

By contrast, aid provided immediately following an earthquake is not a social benefit. The circumstance that leads to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.



Examples of Social Benefits

- Unemployment Benefits
- State Retirement Pensions
- Disability Pensions



Accounting for Social Benefits

- General Approach
 - Used for all social benefits unless the government elects to use the insurance approach
- Insurance Approach
 - Used only where specified criteria are met and the government elects to use the insurance approach.

IPSAS 42 permits two approaches to accounting for social benefits. The general approach is expected to apply to most social benefits; and for many governments will be the only approach that they use.

The insurance approach is an optional approach, and IPSAS 42 only permits its use when specified criteria are met.



General Approach Recognition

- Recognize a liability for a social benefit scheme when:
 - The entity has a present obligation for an outflow of resources that results from a past event; and
 - The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports
- The past event is the satisfaction by the beneficiary of all eligibility criteria for the next benefit
- The satisfaction of eligibility criteria for each social benefit payment is a separate past event

The general approach includes a single recognition point for all social benefits and follows the principles in the [Conceptual Framework](#) for recognizing a liability.

The key factor in determining when a liability for a social benefit arises is identifying the **past event**.

Under the general approach, the past event that gives rise to a liability is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit.

The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. This depends on the characteristics of each individual social benefit scheme.

Other ongoing eligibility criteria may be relevant for some social benefit schemes. For example, many unemployment benefits are only payable while the individual remains resident in the jurisdiction; residence is an ongoing eligibility criterion.

For a liability to be recognized, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.

In IPSAS 42, the general approach does not address social contributions – that is, revenue from contributions towards social benefit schemes. Social contributions are accounted for in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.



Recognition Examples

- Reaching retirement age (in the case of a retirement pension)
- The death of a partner (in the case of a survivor benefit)
- Becoming unemployed (in the case of an unemployment benefit without a waiting period)
- Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period)

The recognition examples are examples of when a beneficiary may first satisfy all the eligibility criteria for the provision of the next social benefit. To continue to receive the social benefit, beneficiaries would need to continue to satisfy the eligibility criteria.

Some social benefits include a waiting period as part of the eligibility criteria. For example, some unemployment benefits are paid after an individual has been unemployed for a set amount of time, say 14 days. Where there is this type of waiting period, the eligibility criteria are only satisfied once the individual has been unemployed for the specified period.



General Approach Measurement

- Expenses measured at amount equivalent to liability
- Liability measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations
- Liability is for next payment only
- Discounting not required for most social benefits
- Liability reduced as payments are made – differences recognized in surplus or deficit

Measurement of Expenses

An entity recognizes an expense for a social benefit scheme, measured at the amount of the next payment following satisfaction of the eligibility criteria. Discounting of the expense will not be required for most social benefits, because the next payment will usually be made within twelve months.

Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it measures the payment in advance (or expense recognized where the payment is irrecoverable) at the amount of the cash transferred.

Measurement of Liability

Under IPSAS 42, the liability for a social benefit scheme is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.

In this context, “costs” means the social benefit payments to be made (i.e., the cash transfers). The costs do not include other elements such as administrative costs and bank charges.

Because the satisfaction of eligibility criteria for each social benefit payment is a separate past event, the liability is for the next payment only. Consequently, liabilities in respect of social benefits will usually be short-term liabilities. As a result, an entity will often know the amounts involved without needing to make estimates. Similarly, because liabilities in respect of social benefits will usually be short-term liabilities, discounting will not be required for most social benefits.

Subsequent Measurement

The liability is reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability is recognized in surplus or deficit in the period in which the liability is settled.

Where a liability is discounted the liability is increased and interest expense recognized in each reporting period to reflect the unwinding of the discount.

Where a liability has yet to be settled, the liability is reviewed at each reporting date, and adjusted to reflect the current best estimate of the social benefit payment required to fulfill the liability.

Worked Example

A government provides a retirement pension. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.

As at December 31, 20X1, the government recognized a liability for retirement pensions of CU1,950,500. During 20X2, the government paid retirement pensions as follows:

<i>January 20X2</i>	<i>1,950,500</i>
<i>February–December 20X2</i>	<i>22,258,000</i>

During January 20X3, Government H pays retirement pensions totaling CU2,095,750.

What expenses should be recognized in 20X2?

Answer:

The payments made in January 20X2 relate to the liability as at December 21, 20X1. Consequently, these payments are not recognized as expenses in 20X2.

As at December 31, 20X2, Government H recognizes a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date.

Consequently, Government H recognizes a liability of CU2,095,750, the full amount of the retirement pensions paid in January.

During 20x2, the total amount recognized as an expense is CU24,353,750. The breakdown of this amount is as follows:

	CU
Pensions paid in February 20X2 (recognized in January 20X2) to December 20X2) recognized in November 20X2)	22,258,000
Pensions paid in January 20X3 (recognized in December 20X2)	2,095,750
Total	24,353,750

General Approach Disclosures

- Characteristics of Social Benefit Schemes
- Demographic, economic and other external factors that influence the level of expenditure
- The total expenditure on social benefits, analyzed by social benefit scheme
- A description of any significant amendments to the social benefit schemes
- If a scheme satisfies the criteria to permit the use of the insurance approach, a statement to that effect

Characteristics of social benefit schemes

The disclosure of the characteristics of social benefits includes the following items:

- The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).
- Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, and a summary of the main eligibility criteria that must be satisfied to receive the social benefits.
- A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity, or by other means.
- Where a scheme is funded by social contributions:
 - A cross reference to the location of information about those social contributions and any dedicated assets (where included in the entity's financial statements); or
 - A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements.

Amendments to a social benefit scheme

Amendments to a social benefit scheme include:

- Changes to the level of social benefits provided; and
- Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

Insurance Approach

IPSAS 42 includes the insurance approach as a possible alternative approach. Entities are permitted, but not required, to use this approach where a social benefit scheme meets certain criteria.

IPSAS 42 does not include requirements for the insurance approach but directs entities to apply relevant international or national accounting standards by analogy. IPSAS 42 includes guidance on which accounting standards may be used when applying the insurance approach.

Insurance Approach: Criteria

- Intended to be Fully Funded from Contributions
 - Contributions, Levies, Investment Income
 - Review and Adjust Rates and/or Benefits
- Managed as Insurer Manages Insurance Contracts
 - Bound by Scheme
 - Separate Fund or Earmarked
 - Enforceable Rights
 - Assess Financial Performance and Position
 - Possibly Separate Entity

IPSAS 42 permits entities to use the insurance approach where:

- The social benefit scheme is intended to be fully funded from contributions; and
- There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

IPSAS 42 includes guidance on how to determine whether a social benefit scheme is intended to be fully funded from contributions.

The legislation or regulations governing the scheme should provide for the scheme to be funded solely from contributions, without any general subsidies from taxation or other government revenues.

For some schemes, governments are required to make contributions on behalf of individuals who are unable to make the contribution themselves, for example where they are unemployed. Where a government makes contributions in this manner on behalf of the individuals – which typically will involve the contributions being credited to their account – the payments are classed as a contribution rather than a subsidy. Where governments make payments generally, or fund a deficit, this is a subsidy.

IPSAS 42 also includes indicators to assist entities in determining whether they are managing a scheme in the same way as an issuer of insurance contracts.

- The entity must be bound by the scheme (so adjustments to rates and/or benefits will be prospective only).
- There should be a separate fund maintained for the social benefit scheme (or the assets should be otherwise earmarked and restricted).
- Beneficiaries' and potential beneficiaries' rights should be enforceable in law.

- The entity should assess the financial performance and position of the scheme at appropriate intervals, and take action where required.
- Finally, the scheme may be operated by a separate entity. This is not essential but may provide further evidence that the scheme is being managed as if the entity were an insurer.

Insurance Approach: Accounting Standards

- IFRS 17, Insurance Contracts
- National standards that have adopted substantially the same principles as IFRS 17
- IFRS 17 provides meaningful information when applied to social benefits
- May not apply to other standards

Within the insurance approach section of IPSAS 42, the term “the relevant international or national accounting standard dealing with insurance contracts” refers to IFRS 17, *Insurance Contracts*, and national standards that have adopted substantially the same principles as IFRS 17.

IFRS 17 has adopted principles for accounting for insurance contracts that, when applied by analogy to social benefit schemes, will provide information that meets users’ needs and satisfies the qualitative characteristics.

This may not be the case for other accounting standards dealing with insurance contracts. Consequently, IPSAS 42 does not allow an entity to apply by analogy an insurance standard that has not adopted substantially the same principles as IFRS 17.

Insurance Approach: Disclosures

- Basis for determining that the insurance approach is appropriate
- Information required by the international or national accounting standard dealing with insurance contracts
- Information about the characteristics of its social benefit schemes
- Description of any amendments made during the reporting period

Where an entity has elected to use the insurance approach, IPSAS 42 requires the entity to make the disclosures listed above.

The entity needs to explain its basis for determining that the insurance approach is appropriate. This involves explaining how the scheme meets the criteria in IPSAS 42, and why the entity considers the insurance approach will provide better information about the scheme.

An entity will also need to provide all the disclosures required by IFRS 17 or the equivalent national standard. These are extensive.

Finally, the entity will also need to provide information about the characteristics of the social benefit scheme, and any amendments that have been made during the reporting period. These disclosure requirements mirror the equivalent disclosures under the general approach.

Discussions and Questions

Visit the IPSASB webpage

<http://www.ipsasb.org>

Review Questions

Question 1

Which of the following should be classified as social benefits under IPSAS 42?

- a) Provision of Retirement Benefits to Government Employees
- b) Provision of State Retirement Pension
- c) Provision of Universal Healthcare Services
- d) Provision of Unemployment Benefits
- e) Provision of Emergency Relief

Question 2

Based on the information presented below:

- a) What liability should the government recognize at December 31 20X8?
- b) What expenses should the government recognize for 20X8

Scenario:

A government provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of CU100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.

The government prepares its financial statements as at December 31. Retirement pensions are paid at the end of each month.

As at December 31, 20X7, the government recognized a liability for retirement pensions of CU2,990,656. During 20X8, the government paid retirement pensions as follows:

Month(s)	Pensions Paid (CU)
January 20X8	3,024,997
February – December 20X8	33,435,183
Total	36,460,180

It is assumed that the government has complete information at the date it pays retirement pensions (i.e., it is assumed that the estimates made by the government at the end of the each reporting period match the subsequent events perfectly).

Consequently, the difference between the amount paid in January 20X8 (CU3,024,997) and the liability recognized as at December 31, 20X7 (CU2,990,656) represents the pro-rated retirement pensions paid to those who reached (and were estimated to reach) retirement age during January 20X8 (CU34,341).

On January 31, 20X9, Government I pays retirement pensions totaling CU3,053,576. There are three elements to this payment:

	(CU)
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died (and were estimated to die) during January 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during January 20X9	37,556
Total	3,053,576

Answers to Review Questions

Question 1

The answer is (b) and (d) should be classified as social benefits under IPSAS 42

Retirement benefits provided to government employees (answer (a)) do not address the needs of society as a whole, as they are only available to former employees of the government. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of IPSAS 42. The retirement benefits are employee benefits, and are accounted for in accordance with IPSAS 39, *Employee Benefits*.

The provision of universal healthcare (answer (c)) requires a government to provide services rather than cash transfers. Consequently, the healthcare services are outside the scope of IPSAS 42.

The provision of emergency relief (answer (e)) does not mitigate the effects of social risks, but instead mitigates the effects of other risks, for example the risk of earthquake. IPSAS 42 explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate – are not social risks. Consequently, the emergency relief is outside the scope of IPSAS 42.

The provision of state retirement pensions (answer (b)) and unemployment benefits answer (d)) are social benefits. They are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement pensions and unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age or during period of unemployment.

The state retirement pension and unemployment benefits address the needs of society as a whole. In this context, IPSAS 42 notes that the “assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met.”

Question 2

- a) As at December 31, 20X8, the government recognizes a liability (for retirement pensions payable to those who satisfied the eligibility criteria at that date) of CU3,016,020

This includes the full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (CU2,979,600) and the pro-rated pensions paid to those pensioners eligible at December 31 who died (and were estimated to die) during January 20X9 (CU36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during January 20X9 because they had not satisfied the eligibility criteria as at December 31, 20X8.

- b) During 20x8, the total amount recognized as an expense is CU36,485,544.

The breakdown of this amount is as follows:

	(CU)
Pro-rated pensions paid to those who reached retirement age during January 20X8 (recognized in January 20X8)	34,341
Pensions paid between February 20X8 and December 20X8 and recognized in the financial year January 1, 20X8 to December 31, 20X8	33,435,183
Full pensions paid to those pensioners eligible at December 31, 20X8 and remaining eligible at January 31, 20X9 (recognized in December 20X8)	2,979,600
Pro-rated pensions paid to those pensioners eligible at December 31, 20X8 who died during January 20X9 (recognized in December 20X8)	36,420
Total	<hr/> 36,485,544

Collective and Individual Services



Learning Objective

You are able to:

- Apply the definitions of collective services and individual services
- Apply the accounting requirements for collective and individual services
- Understand the relationship between collective and individual services, social benefits and contractual obligations.

When [IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets](#), was first issued, provisions and contingent liabilities arising from social benefits were excluded from the scope of the Standard. At that time, IPSAS 19 described social benefits in wide terms as goods, services, and other benefits provided in the pursuit of the social policy objectives of a government.

[IPSAS 42, Social Benefits](#), amended IPSAS 19, which now excludes from its scope social benefits within the scope of IPSAS 42 (i.e., cash transfers provided to mitigate the effect of social risks).

A consequence of this amendment was to bring within the scope of IPSAS 19 collective and individual services. A key issue is whether a provision arose in respect of those transactions.

Collective and Individual Services (Amendments to IPSAS 19) addresses this issue.



Definitions

Collective services are services provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole.

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

The provision of a **collective service** to one individual does not reduce the amount available to other individuals; there is no rivalry in the consumption of collective services. Consumption of collective services is usually passive and does not require the explicit agreement or active participation of those benefiting from the service.

Examples of collective services include defense and street lighting.

The provision of an **individual service** to one individual may reduce the amount available to other individuals, or may delay the receipt of those services by some individuals. Consumption of individual services requires the explicit agreement or active participation of those benefiting from the service. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.

Examples of individual services include universal healthcare and universal education.

Collective Services, Individual Services and Social Benefits

	Social Benefits	Individual Services	Collective Services
Involves a cash transfer to eligible beneficiaries?	✓	✗	✗
Provided to individuals and/or households, rather than to a community?	✓	✓	✗
Intended to address the needs of society as a whole?	✓	✓	✓

The above table illustrates the differences between collective services, individual services, and social benefits. Social benefits involve a cash transfer, whereas collective and individual services involve the provision of services

Accounting for Collective and Individual Services

- Collective Services
 - Ongoing activity of government
- Individual Services
 - Ongoing activity of government
 - No liability to beneficiaries
- Expenses accounted for using other IPSAS

Accounting for Collective Services

Collective services are considered to be ongoing activities of the public sector entity that delivers the services.

In accordance with IPSAS 19, “no provision is recognized for costs that need to be incurred to continue an entity’s ongoing activities in the future”.

Consequently, no provision is recognized for the intention to deliver collective services. Expenses are recognized as the services are delivered, in accordance with other IPSAS.

In delivering collective services, a public sector entity acquires resources and incurs expenses through contractual and other binding arrangements. Examples include the salaries paid to defense staff, the electricity used in delivering street lighting, the acquisition of non-current assets used in delivering those services, and the purchase of collective services from a third-party provider.

These contractual and other binding arrangements would be accounted for in accordance with other IPSAS. These arrangements may give rise to a liability, but the liability arises from the contract or binding arrangement, not the promise to provide collective services.

Accounting for Individual Services

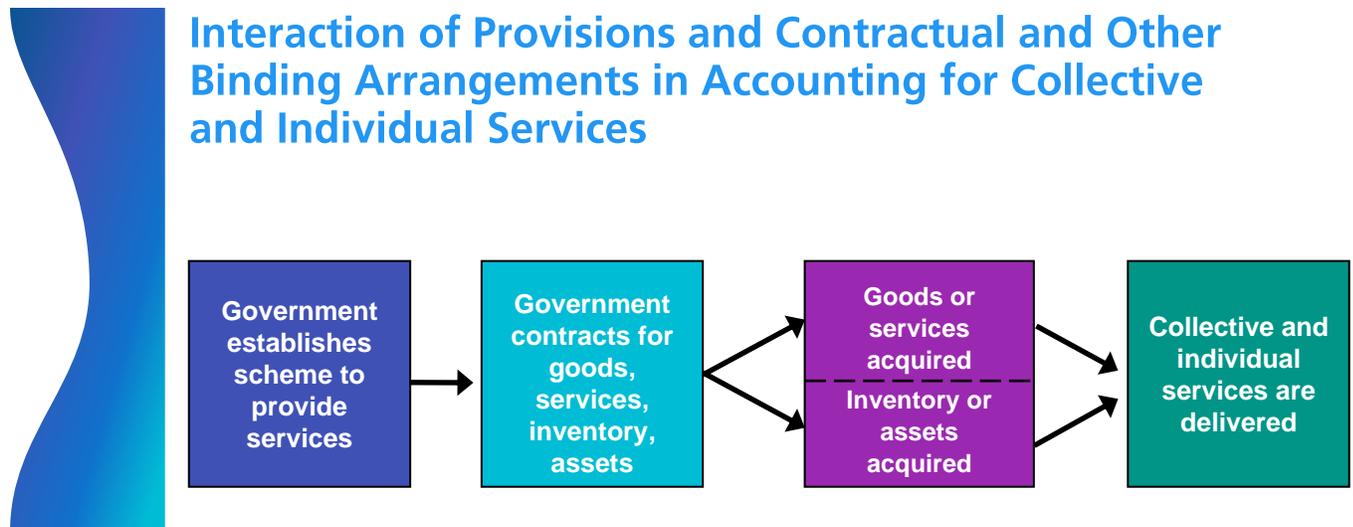
Similarly, the delivery of individual services is an ongoing activity of the public sector entity that provides the services. The delivery of individual services results in the public sector entity acquiring resources and incurring expenses through contractual and other binding arrangements.

These contractual and other binding arrangements would be accounted for in accordance with other IPSAS. These arrangements may give rise to a liability, but the liability arises from the contract or binding arrangement, not the promise to provide collective services.

The public sector entity uses the resources acquired to deliver individual services. Where individuals access these services, the entity may have a number of future obligations relating to the delivery of these individual services. However, these obligations are not present obligations and do not give rise to a liability.

As with collective services, no provision is recognized for the intention to deliver individual services prior to individuals and/or households accessing the services.

Interaction of Provisions and Contractual and Other Binding Arrangements in Accounting for Collective and Individual Services



Government establishes scheme to provide services

When a government decides to provide collective services (such as defense) or individual services (such as healthcare), this will often be done via legislation.

The legislation commits the government to providing services as ongoing activities of government.

No provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. These are future, not present, obligations.

Government contracts for goods, services, inventory, assets

Governments provide collective and individual services through contractual and other binding arrangements.

These arrangements may be with staff, with suppliers of goods, with third party providers of the services, or with providers of assets.

These arrangements are executory; no liability is recognized until the other party has delivered.

These arrangements do not affect the government's future obligations to third party beneficiaries.

Goods or services acquired

Governments recognize a financial liability to pay for other goods and services acquired. These goods and services are consumed immediately they are received (for example, electricity for street lighting).

Because the items are consumed immediately, no asset is recognized.

Inventory or assets acquired

Governments also recognize inventory and non-current assets, and recognize a corresponding financial liability to pay for the items.

Collective and individual services are delivered

As the government delivers collective and individual services, it recognizes an expense.

Where goods or services are acquired and consumed immediately to provide services, the government does not recognize then immediately derecognize an asset, but recognizes an expense to match the liability.

Where inventory or assets are consumed in providing collective or individual services, the inventory or assets are derecognized or depreciated.

Questions and Discussion

Visit the IPSASB webpage

<http://www.ipsasb.org>

Review Questions

Question 1

Which of the following should be classified as collective services under IPSAS 19?

Which should be classified as individual services?

- a) Defense
- b) Universal education
- c) Universal healthcare
- d) Street lighting
- e) Policing
- f) Commercial garbage collection

Question 2

A municipality maintains parks for the public to access. The municipality enters into a contract with a private sector company to provide the maintenance services in respect of one of the parks for the next calendar year. Services are expected to be provided evenly over the year. The contract requires the municipality to make payments quarterly in advance.

When should the municipality recognize an expense?

Answer to Review Questions

Question 1

Which of the following should be classified as collective services under IPSAS 19?

Which should be classified as individual services?

Answers (a), (d) and (e) should be classified as collective services under IPSAS 19.

Answers (b) and (c) should be classified as individual services under IPSAS 19.

Answer (f) is neither a collective service nor an individual service.

Defense, street lighting and policing are collective services because they are examples of services that are provided by a public sector entity simultaneously to all members of the community that are intended to address the needs of society as a whole. There is no rivalry in the consumption of these services.

Universal healthcare and universal education are individual services because they are examples of services provided to individuals and/or households by a public sector entity that are intended to address the needs of society as a whole.

Commercial garbage collection is neither a collective service nor an individual service, because the service is provided on a commercial basis. Goods or services provided by a public sector entity on commercial terms do not address the needs of society as a whole, and therefore do not satisfy the definition of individual services.

Question 2

The municipality recognizes an expense as services are provided.

Providing and maintaining parks for public use is a collective service. Under IPSAS 19, the municipality does not recognize a provision for its intention to provide collective services.

The municipality will recognize an expense as the services are provided in accordance with other IPSAS. The contract with the private sector company is an executory contract, so the municipality only recognizes an expense as the services are provided, which is evenly over the year. As payments are made quarterly in advance, the municipality will recognize a prepayment until the services are provided.

IPSASB Proposals for Transfer Expenses

Purpose of Session

ED 72, Transfer Expenses, proposes requirements for accounting for transfer expenses. Currently there are no explicit requirements.

Participants who are preparing to adopt the accrual basis IPSAS should be aware of the proposals so that they can ensure any expense systems and procedures being developed for the transition process will be capable of dealing with the proposed accounting.

The accounting discussed in this session relates to proposals only and is therefore subject to change.

Because this final session discusses proposals rather than requirements published by the IPSASB, there are no review questions. The purpose of this session is to provide sufficient information for participants to identify whether their processes and systems are capable of providing the information needed to implement the proposals if the IPSASB agrees to proceed with them.

Definition of Transfer Expense

A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity (which may be an individual) without directly receiving any good, service, or other asset in return.

A transfer expense is similar to a non-exchange transaction as defined in IPSAS 9, which states that “In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.”

The difference, other than the fact that a transfer expense only covers the expense side of the transaction, is that in a transfer expense, the transferor does not receive anything in exchange for providing a transfer. Non-exchange expenses include transfer expenses, but also include transactions where the transferor receives something of lower value in return.

In ED 72, the transferor is referred to as the **transfer provider**. The recipient of the transfer is the **transfer recipient**, who may be obligated to transfer goods or services to **third-party beneficiaries**.

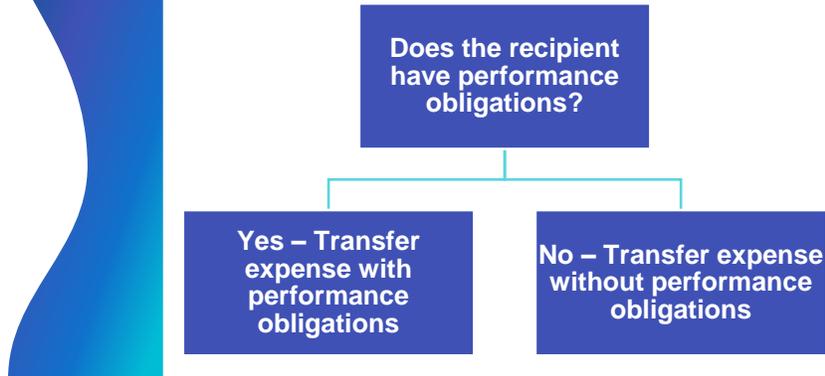
Performance Obligations

A performance obligation is a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:

- a) A good or service (or a bundle of goods or services) that is distinct; or
- b) A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary.

The performance obligation concept is used to determine how to account for a transfer expense.

Types of Transfer Expense



For there to be performance obligations, there must first be a binding arrangement (a contract or similar).

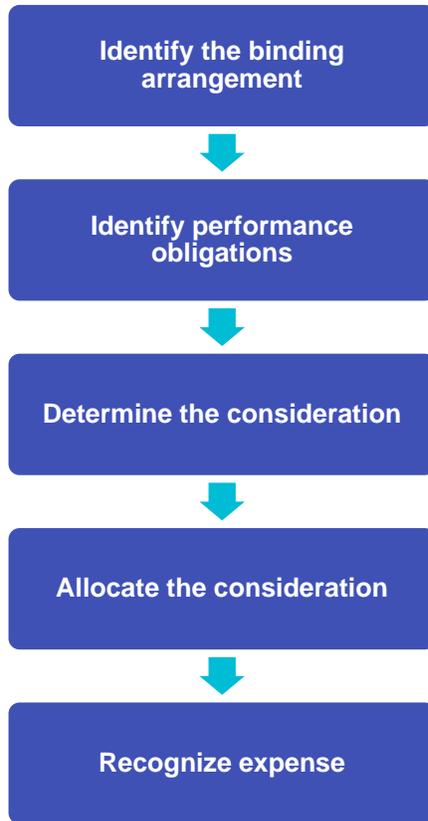
Where the arrangement imposes performance obligations on the transfer recipient, the arrangement is accounted for as a transfer expense with performance obligations. [ED 70, Revenue with Performance Obligations](#), is used to account for the other side of the transaction. The approach used in accounting for transfer expenses with performance obligations is called the public sector performance obligation approach (PSPOA), and mirror the accounting requirements in ED 70.

Where the arrangement does not impose performance obligations on the transfer recipient, the arrangement is accounted for as a transfer expense without performance obligations. [ED 71, Revenue without Performance Obligations](#), is used to account for the other side of the transaction.

Examples

- Grants to lower levels of government
- Assets donated by international organizations
- Funding for training courses to be provided to beneficiaries

Accounting for Transfer Expenses with Performance Obligations



Step 1: Identify the Binding Arrangement

The parties to the binding arrangement must have approved the binding arrangement and be committed to performing their respective obligations.

The transfer provider must be able to identify each party's rights regarding the goods or services to be transferred and be able to identify the payment terms for the goods or services to be transferred.

The transfer provider must monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. This is necessary to ensure the transfer provider has the information required to apply the PSPOA.

Where one or more of the criteria are not met, the transfer provider will account for the transfer expense as a transfer expense without performance obligations.

Step 2: Identify Performance Obligations

The PSPOA allocates expenses to the transfer recipient's performance obligations. The transfer provider needs to identify as a performance obligation each promise by the transfer recipient to transfer to a third-party beneficiary either:

- A good or service (or a bundle of goods or services) that is distinct; or

- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third-party beneficiary

Only those performance obligations to transfer goods and services to third-party beneficiaries are within the scope of ED 72. This is a subset of the performance obligations in ED 70, *Revenue with Performance Obligations*.

Step 3: Determine the Transaction Consideration

The transaction consideration is the value of the resources (i.e., the consideration) that the transfer provider expects to transfer to the transfer recipient, in exchange for the transfer recipient transferring the promised goods or services to the third-party beneficiary.

The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both. The following factors are considered in determining the transaction consideration

- Nature of the consideration;
- Amount of the consideration;
- Timing of the consideration, including any significant financing component;
- Variable consideration;
- Non-cash consideration; and
- Consideration receivable by a transfer provider.

Step 4: Allocate the Transaction Consideration

The total transaction consideration is allocated to individual performance obligations.

The transaction consideration is allocated based on the cost which the transfer provider expects to incur in exchange for the promised goods or services being transferred to a third-party beneficiary.

To identify this cost, the transfer provider determines the stand-alone purchase price of each good or service that is to be transferred. This may be directly observable (where the goods or services are purchased individually) or may need to be estimated.

The transaction consideration is allocated in proportion to the stand-alone purchase prices. Additional guidance is provided for allocating discounts and variable consideration.

If there is only one performance obligation, the full amount of the transaction consideration relates to that performance obligation.

Step 5: Recognize a Transfer Expense

A transfer provider recognizes an expense when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary.

A good or service is transferred when (or as) the third-party beneficiary obtains control of that good or service.

A transfer provider may determine the point at which the third-party beneficiary obtains control of the good or service by reference to the transfer recipient losing control of that good or service.

In some circumstances, the transfer provider may find it easier to identify when the transfer recipient loses control of the good or service, especially where there are multiple third-party beneficiaries who receive the good or service.

Recognition of Transfer Expenses without Performance Obligations

A transfer expense without performance obligations is recognized at the earlier of the following dates:

- When the transfer provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources;

and

- When the transfer provider ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the transfer provider derecognizes the resources it ceases to control in accordance with other Standards.

Transfer expenses without performance obligations may arise:

- Where the transfer provider incurs expenses in accordance with a binding arrangement it has entered into with a transfer recipient, and the binding arrangement imposes present obligations—other than performance obligations—on the transfer recipient; or
- Where the transfer provider incurs expenses without the existence of a binding arrangement.

Transfers to be made where there is no binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources.

Measurement of Transfer Expenses without Performance Obligations

- Expense recognized at date of transfer
 - Carrying amount of resources transferred
- Expense recognized prior to transfer
 - Best estimate of the costs that the transfer provider will incur

Where a transfer provider recognizes an expense at the date it transfers the resources to the transfer recipient, the transfer provider measures the expense at the carrying amount of the resources transferred.

In many cases, the resources that are transferred will be cash, and the expense is measured at the amount of cash transferred. In other cases, the resources may be a non-current asset, inventory, or services. The expense is measured at the carrying amount of resources transferred. In the case of services, this will be the cost of providing the services.

Where a transfer provider recognizes an expense prior to transferring the resources to the transfer recipient, it measures the expense and liability at the best estimate of the costs that the transfer provider will incur in settling the liability. The costs that the transfer provider will incur in settling the liability may include fixed costs, variable costs, or both.

The transfer provider also needs to consider the time value of money (where the transfer of resources will take place more than one year in the future) and the value of any non-cash transfers.

Recognition of Transfer Expenses without Performance Obligations

	Transfer Expenses	Revenue
The transfer provider incurs expenses in accordance with a binding arrangement that imposes present obligations on the transfer recipient.	<p>Financial Position: The present obligations imposed on the transfer recipient do not give rise to an asset controlled by the transfer provider; no asset is recognized.</p> <p>Financial Performance: The transfer provider recognizes an expense as it transfers the resources (or when it has a payable, if earlier).</p>	<p>Financial Position: The transfer recipient recognizes an asset and a liability when it receives resources (or when it has a receivable, if earlier).</p> <p>Financial Performance: The transfer recipient recognizes revenue (and derecognizes the liability) as it satisfies the present obligations.</p>
The transfer provider incurs expenses without the existence of a binding arrangement.	<p>Financial Position: Without a binding arrangement, the transfer provider does not recognize an asset.</p> <p>Financial Performance: The transfer provider recognizes an expense as it transfers the resources.</p>	<p>Financial Position: Without a binding arrangement, there is no liability; the transfer recipient recognizes an asset when it receives resources.</p> <p>Financial Performance: The transfer recipient recognizes revenue when it receives the resources.</p>

For Further Information

That concludes our module on the IPSASB proposals for transfer expenses. Participants seeking more information on the proposals should refer to the documentation on the IPSASB website.

Visit the IPSASB webpage

<http://www.ipsasb.org>

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