INTERNATIONAL FEDERATION OF ACCOUNTANTS

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DATE:	OCTOBER 26, 2005
MEMO TO:	MEMBERS OF THE IPSASB
FROM:	MATTHEW BOHUN
SUBJECT:	**ED XX REVENUE FROM NON-EXCHANGE TRANSACTIONS**

ACTION REQUIRED

The Board is asked to:

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

AGENDA MATERIALS

		Pages
8.2	ED XX, "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)" (Clean version) Mark up version available on request	8.4 – 8.65
8.3	Comments on draft ED circulated September 16, 2005.	8.66– 8.131

BACKGROUND

At the IPSASB meeting in July 2005, the IPSASB reviewed two drafts of ED XX, "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)" and provided staff with comments and directions for improving the text. Since that meeting, IPSASB members have provided staff with comments on the stipulations requirements of the proposed standard, which were incorporated into a draft ED circulated on September 16, 2005, with a request for comments by September 30, 2005.

Staff received comments from eight members/technical advisors. The IPSASB requested that staff provide copies of all comments received, and a note detailing why particular comments were not adopted into the draft. The note summarizing why staff did not address particular comments is included at item 8.3 (pages 8.66-8.69). Item 8.3 also includes member comments on the September 16 draft ED (pages 8.70-8.131). Please note that some members provided comments as mark ups on the document, which resulted in a comment package of over 300 pages. To reduce the length of the agenda item, where the comments were on a marked up document, staff have only included those pages where comments were made.

The Technical Director and I have extensively reviewed the ED for repetition, poor grammar, inconsistencies, ambiguity and other drafting issues. Staff have also reordered the Basis for Conclusions so that it reflects the flow of the ED. Although changes to the draft Standard and Implementation Guidance are mainly editorial and improving the expression of the text, due to the extensive reordering of the Basis for Conclusions, staff do not consider that it would be useful to work with the mark up version of the draft ED, the clean version is included at item 3.2. A mark up version is available on request.

MAJOR CHANGES IN THIS DRAFT

Specific Matters for Comment

There were previously three matters addressing conditions, these have been combined into one matter for comment.

Scope of the ED

To reflect the IPSASB's instructions to exclude business combinations from the scope of the proposed IPSAS, staff have two suggested alternatives. The first and preferred alternative, is shown in the marked up paragraph 2. This alternative does not require the recognition of revenue from entity combinations that result from non-exchange transactions. This alternative allows entities to recognize revenue, and commentary in the draft ED states that where entities do recognize revenue, they do so according to the provisions of this ED. The second alternative, shown in the boxed text, excludes entity combinations from the scope of the IPSAS and provides no guidance as to whether an entity should apply this ED if they do recognize revenue from entity combinations.

Definitions

The definitions themselves have only been subjected to editorial changes. The commentary accompanying those definitions has been modified, in particular in relation to comments staff received prior to the September 16 distribution. In particular in relation to stipulations, the commentary makes it clear that stipulations are enforceable, irrespective of whether the stipulation is a condition or a restriction. Enforcement of a restriction will not, by definition result in the return of the transferred asset to the transferor, but may result in a sanction if the entity breaches the restriction.

The term "advance receipt" has been adopted throughout the ED to describe resources received in advance of a taxable event or prior to a transfer becoming binding. Previous drafts of the ED used a variety of terms.

The commentary also notes that taxes can be established by binding arrangements, this was absent from the previous draft.

Recognition of Assets

Staff have included a black letter requirement that assets acquired through a non-exchange transaction be initially measure at their fair value as at the date of acquisition. Staff are of the view that this better reflects the decision taken in New York. Consequently, staff are also proposing amendments to IPSAS 12, "Inventories", IPSAS 16, "Investment Property" and IPSAS 17, "Property, Plant and Equipment" to reflect this change. The proposed amendments remove the notion of "no cost or nominal cost" and replace it with "acquired through a non-exchange transaction". This change has also been reflected in the Transfers section.

Contributions from Owners

The commentary on contributions from owners has been amended to more closely reflect the definition. Further, examples have been included in the text that illustrate when a contribution from owners is in substance a loan. In the section on transfers (paragraph 77) the commentary illustrates when a transfer is in substance a contribution from owners.

Non-Exchange Transactions

Paragraphs 38 – 40 have been redrafted so that they do not repeat what appears in paragraph 9.

Present Obligations Recognized as Liabilities
Staff have included in black letter a requirement to that a present obligation arises in respect of a condition that will be recognized as a liability when definition and recognition criteria are met and a requirement to measure liabilities at the best estimate of the expenditure required to settle the liability on reporting date. These requirements reflect the IPSASB's views expressed at the New York meeting, and add clarity to the proposed Standard.

Taxes
Material that repeated commentary in the definitions section has been deleted. Commentary describing tax receivables as financial instruments has been deleted as tax receivables are excluded from the definition of financial instrument. A black letter requirement forbidding the adjustment of tax revenue for tax expenditures has been added to complement the black letter relating to tax expenses.

Transfers
The commentary paragraphs in this section have been reordered to reflect the sequence of items listed in paragraph 4. Gifts, donations and In-kind Services are now addressed together as they are similar transactions.

Disclosures
The disclosures section has been modified to ensure that the ED is consistent in seeking disclosures about similar items and is consistent with disclosures required in other IPSASs. The commentary has been amended to reflect the objectives of financial reporting.

Implementation Guidance
The implementation guidance has been amended to reflect changes made to the text. An additional example has been added to illustrate the disclosures required.

Basis for Conclusions
The Basis for Conclusions has been extensively modified to include additional material from the ITC, in particular noting how an issue was addressed in the ITC and how respondents reacted to it. The order of the paragraphs now reflects the order matters were addressed in the test.

STAFF RECOMMENDATION
Staff are of the view that the draft ED is much improved and reflects the majority opinions of the IPSASB. Staff are of the view that the draft also reflects the opinions of IPSASB constituents who commented on the draft. Staff recommend that the IPSASB review and approve the ED for publication after the meeting.

Matthew Bohun
TECHNICAL MANAGER

The Mission of IFAC

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

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

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Some of the examples in the Implementation Guidance are drawn from GASB Statement 33 *Accounting and Financial Reporting for Nonexchange Transactions*, issued by the Governmental Accounting Standards Board (GASB) (United States of America) and are used with the permission of GASB and the Financial Accounting Foundation (FAF). GASB Statements are copyright of the FAF and should not be used without permission.

COMMENTING ON THIS EXPOSURE DRAFT

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

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

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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

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

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

Due Process and Timetable

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

Background

Many public sector entities derive most of their revenue from non-exchange transactions including taxes and transfers such as grants, debt forgiveness, fines, bequests donations, gifts in-kind goods and services. Public sector entities may also receive inflows of resources as a result of a contribution from owners. These issues have not been addressed by International Public Sector Accounting Standards, and other international guidance does not address these issues from a public sector perspective.

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

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the recognition, measurement and disclosure of revenue from non-exchange transactions and provides guidance to assist in distinguishing revenue from contributions from owners.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by Month XX, 200X (4 months from the date of issue). The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspects of the Exposure Draft (including materials and examples contained in the implementation guidance) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments, clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comment on the proposals to:

(a) Exclude entity combinations that are non-exchange transactions from the scope of the Standard (see paragraph 2).

(b) Include in the Standard, definitions of “taxes”, “taxable event”, “expenses paid through the tax system” and “tax expenditures” and the definitions thereof (see paragraph 8).

(c) Include guidance for entities to distinguish exchange and non-exchange components of transactions where the consideration is not approximately equal to the fair value of the resources received. Paragraph 9 notes that these transactions may, in substance, comprise two components, one an exchange transaction, and the other a non-exchange transaction, or that the consideration may be a cost of the transfer, to be recognized separately. The ED proposes that the components be distinguished and recognized separately.

(d) Require recognition of assets when resources are transferred or when the reporting entity has an enforceable claim to resources that are to be transferred (see paragraphs 29 – 30 and paragraph 76). The ED notes that before a claim to a resource is enforceable, the resource does not meet the definition of "control of an asset" because the recipient reporting entity cannot exclude or regulate the access of the transferor to the resource.

(e) Measure assets acquired in a non-exchange transaction at their fair value. IPSAS 16 "Investment Property" and IPSAS 17 "Property, Plant and Equipment" require assets to be measured at cost on initial recognition and specify that cost is fair value when assets are acquired in a non exchange transaction. This IPSAS also proposes an amendment to IPSAS 12 which would require inventories acquired at no cost or for a nominal cost to be recognized at their fair value on initial recognition.

(f) Not permit the netting of expenses paid through the tax system (see paragraphs 68 – 72) against taxation revenue. Instead they must be recognized separately on a gross basis. The ED distinguishes between expenses paid through the tax system and tax expenditures, and notes that tax expenditures are foregone revenue, not expenses.

(g) Require a reporting entity to recognize liabilities in respect of taxes received in advance of the taxable event (see paragraph 63).

(h) Require a reporting entity to recognize a liability in respect of resources transferred to the reporting entity prior to the transfer agreement becoming binding (see paragraph 99).

(i) Require that a liability be recognized in respect of an asset transferred subject to conditions upon initial recognition of a transferred asset (paragraph 15). The liability continues to be recognized until such time as the condition is satisfied (paragraph 41). When the condition has been satisfied the liability is reduced, or derecognized, and revenue recognized. Alternatively, do you consider that the IPSAS should only require the recognition of a liability when a condition is breached (see paragraph 79)?

(j) Include guidance that restrictions always give rise to the recognition of revenue (paragraph 17).

(k) Require liabilities related to inflows of resources to be measured according to the requirements of IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" (paragraph 48).

(l) Require a non-exchange transaction that gives rise to the recognition of an asset to .also give rise to the recognition of revenue to the extent that a liability is not recognized (paragraph 50). Are there any non-exchange transactions whereby it would be appropriate to initially recognize the gross inflow of economic benefits or service potential represented by the asset as revenue even if a liability is recognized resulting in the simultaneous recognition of an expense for the liability?

(m) Permit recognition of in-kind services that satisfy the recognition requirements (see paragraphs 92– 96).

(n) Provide entities a five year period in which to conform their accounting policies in respect of taxation revenue to the requirements of this Standard. (See paragraphs 106– 113). Do you believe that transitional provisions should be provided in respect of other non-exchange transactions?

(o) Amend IPSAS 12, “Inventories”, IPSAS 16, “Investment Property” and IPSAS 17, “Property, Plant and Equipment” to require that where assets are acquired through a non-exchange transaction, their cost is their fair value as at the date of acquisition.

International Public Sector Accounting Standard IPSAS XX

Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)

CONTENTS

International Public Sector Accounting Standard XX, "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)" is set out in paragraphs 1 –115. All the paragraphs have equal authority except as noted otherwise. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the "Preface to the International Public Sector Accounting Standards". IPSAS 1, "Presentation of Financial Statements" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

International Public Sector Accounting Standard IPSAS XX

Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)

Objective

1. The objective of this Standard is to prescribe the financial reporting of revenue arising from non-exchange transactions other than non-exchange transactions that give rise to an entity combination. It 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 which 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 require that revenue be recognized as a result of an entity combination that is a non-exchange transaction.**

Alternative Paragraph

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to an entity combination that is a non-exchange transaction.**

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

4. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in IPSAS 9, “Revenue from Exchange Transactions”. While revenues received by public sector entities arise from both exchange and non-exchange transactions, the majority of revenue of governments and other public sector entities is typically derived from non-exchange transactions such as:

   (a) Taxes; and

   (b) Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, in-kind goods and services.

5. Governments frequently reorganize the public sector, merging some public sector entities with each other, and dividing other entities into two or more separate entities. These restructurings do not ordinarily involve one entity purchasing another entity, but may result in a new or existing entity acquiring all the assets and liabilities of another entity. The International Public Sector Accounting Standards Board (IPSASB) has not addressed entity combinations and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination which is a non-exchange transaction will give rise to revenue or not.

6. Where the accounting policy adopted by a public sector entity for entity combinations resulting from non-exchange transactions does give rise to revenue, it is anticipated that revenue will be recognized in a manner consistent with the principles established in this Standard.

Government Business Enterprises

7. The "Preface to International Public Sector Accounting Standards" issued by the IPSASB explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are profit-oriented entities, accordingly, they are required to comply with IFRSs.

Definitions

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

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

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

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

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

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

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

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

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

Fines are sacrifices of economic benefits or service potential by persons or other entities for breaching the requirements of laws or regulations, as determined by a court or any other law enforcement body.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Non-exchange transactions are transactions that are not exchange transactions. 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.

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.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

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

Non-Exchange Transactions

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

10. 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 from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control use or otherwise benefit from the collected assets in the pursuit of its objectives.

11. Where an entity incurs some cost in relation to a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, 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 plant, those costs are recognized separately from the transfer of the item of plant.

Stipulations

12. 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 IPSAS. 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. Therefore, where the reporting entity enters a binding agreement with a controlled entity, a stipulation does not arise because the controlled entity is not external to the reporting entity.

13. 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), 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).

14. 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, but may arise from other terms in laws or regulations or other binding arrangements. IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” establishes requirements for the recognition and measurement of constructive obligations.

Conditions

15. A condition requires that the entity either consume the future economic benefits or service potential of the asset as specified or return future economic benefits or service potential to the transferor, in the event that the condition is breached. Therefore, except in the case of non-depreciable, non-monetary assets such as land, 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.

16. 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’s financial statements will still recognize the gross amounts in its financial statements, that is they 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. For example, cash or the value of non-monetary assets that would otherwise be returned to the transferor may be deducted from the amount of a future transfers that the transferee would otherwise have received. In such cases, the reporting entity will recognize a

reduction in its liability to the transferor, and will also recognize an increase in assets received. This does not undermine the underlying substance of the transfer: that gaining control of the asset also gives rise to a liability.

Restrictions

17. Restrictions do not include a requirement that the transferred asset, or other future economic benefits or service potential, is required 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. The recipient can therefore avoid the outflow of resources by not fulfilling the restriction. 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, 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 fulfil 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.

Substance over Form

18. 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 their form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or returned to the transferor is in itself not sufficient to give rise to a liability when the entity gains control of the asset.

19. 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, or would be enforced by the transferor. If the transferor could not enforce a requirement to return 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.

20. 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. 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 stipulation that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the stipulation 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.

<u>Examples</u>

The following are examples of Stipulations which specify the return of a transferred asset if the terms of transfer are breached, but do not satisfy the definition of a condition.

- A national government makes a cash transfer to a state government social housing entity specifying that it increases the stock of social housing by an additional 1,000 units, over and above any other planned increases, uses the cash transfer in other ways to support its social housing objectives or return the cash to the national government. In this case, the transfer term is defined 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 the condition; and

- A piece of highly specialized single purpose medical diagnostic equipment is transferred by its manufacturer to a medical clinic (reporting entity) which undertakes relevant diagnostic activities. Due to the presence of a radiation source in the equipment, the user is required by the national nuclear regulatory agency to have a license, and the equipment cannot be resold except with the consent of both the manufacturer and the regulatory agency. The transfer is made subject to the transfer term that the equipment be used for the purpose specified or be returned to the transferor. In this case, the equipment has future economic benefit or service potential to the recipient only for those specific diagnostic purposes, and cannot realistically be used for other purposes and cannot be sold. Therefore, the transfer agreement term itself does not impose a performance objective on the recipient.

21. To satisfy the criteria for recognition as a liability an outflow of resources will be probable and performance against the condition will be required and will be able to be assessed. Therefore, a condition would 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, particularly 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 enforced if significant failures to perform have occurred in the past.

22. 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, or a provincial government provides funds to a local government entity subject the stipulation that all local residences are connected to the national electricity grid or subject to the stipulation that capacity in local area public hospitals is provided free of charge to specific groups of citizens. In these cases, a return obligation does not arise until such time as it is expected that the stipulation is breached and a liability is not recognized until the recognition criteria have been satisfied.

23. 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 becoming enforceable. Advance receipts give rise to an asset and a present obligation because there is an obligation to return the resources received if the taxable event does not occur or the transfer agreement does not become binding. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with IPSAS 9, “Revenue from Exchange Transactions”.

Taxes

24. Taxes are the major source of revenue for many governments and public sector entities. Taxes are defined in paragraph 8 as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, but excluding fines or other penalties imposed for breaches of laws or regulation. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

25. Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws or regulations, and or other binding arrangements, establish a government’s right to collect the tax, identify the basis on which the tax is calculated, and

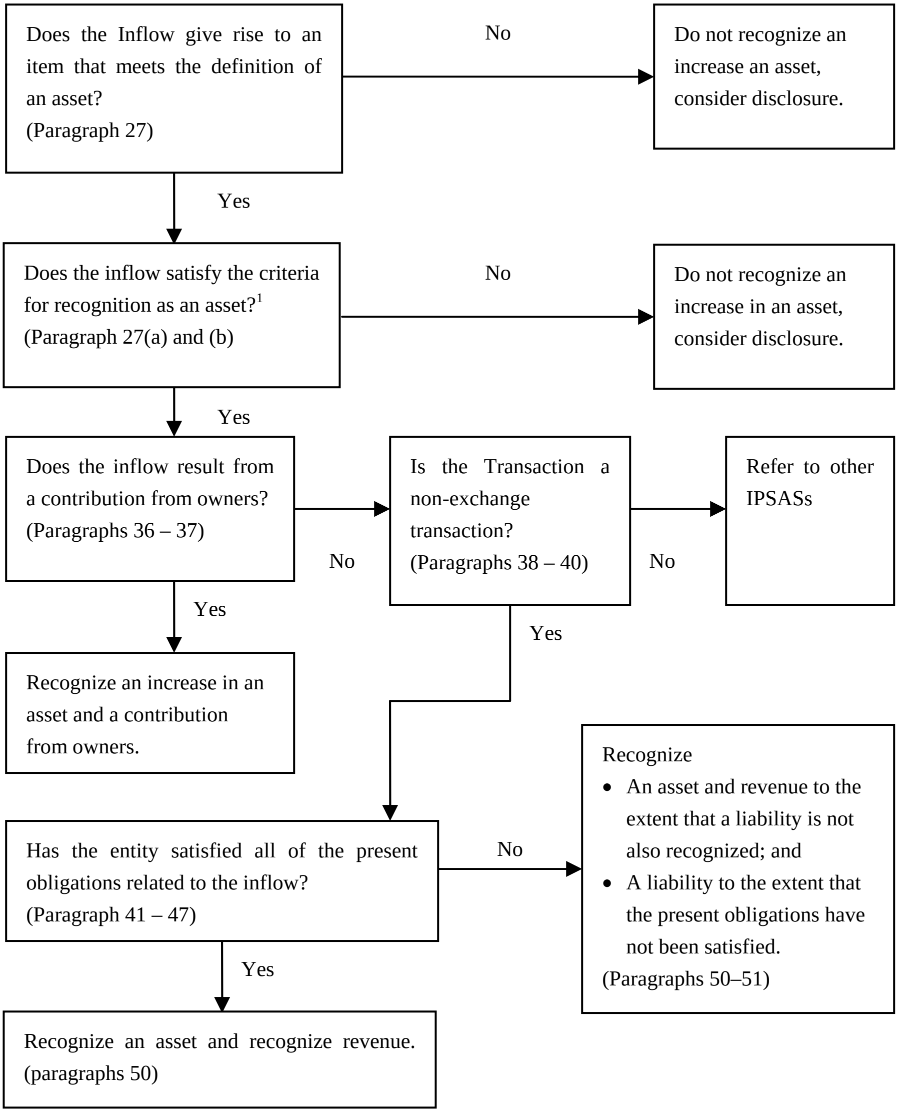
establish procedures to administer the tax, that is procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations, or other binding arrangements often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer 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.

Recognition of Revenue Arising from Non-Exchange Transactions

26. An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that satisfy the recognition criteria. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognize as a liability. 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.[1] This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 27 to **Error! Reference source not found.**.

[1] The flowchart is illustrative only, it does not take the place of the standards. It is provided as an aid to interpreting the IPSAS.

Illustration of the Analysis of Inflows of Resources



1. 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.

Recognition of Assets

27. **An inflow of resources from a non-exchange transaction 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.**

28. To recognize assets arising as a result of a non-exchange transaction all the elements in paragraph 27 are required to be satisfied. To meet the definition of an asset requires that the entity obtain control of resources as a result of a past event. In addition it must be probable that the future economic benefits or service potential will flow to the entity, and that the fair value of the asset can be measured reliably.

Control of an Asset

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

30. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled. For example, if a public school were destroyed by a forest fire and the national government announced its intention to appropriate funds to rebuild the school; the school would not recognize an inflow of resources at the time of the announcement. In circumstances where an appropriation is required before resources can be transferred, an entity will not identify resources as controlled until such time as the appropriation is made because the entity cannot exclude or regulate the access of the government 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 regulate the transferor's access to those resources.

Past Event

31. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore the past event which 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 meets the definition of an asset.

Probable Inflow of Resources

32. 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 government appropriates funds to a public sector entity (reporting entity), and the government has a history of transferring appropriated resources, it is probable that the inflow will occur, notwithstanding that the appropriated funds have not been transferred at reporting date.

Contingent Assets

33. 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, “Provisions, Contingent Liabilities and Contingent Assets”).

Measurement on Initial Recognition

34. **An asset acquired through a non-exchange transaction, shall initially be measured at its fair value as at the date of acquisition, unless another International Public Sector Accounting Standard includes recognition criteria for assets acquired through a non-exchange transaction.**

35. Assets are measured at their fair value as at the date of acquisition, unless specified otherwise in the relevant International Public Sector Accounting Standard (IPSAS). IPSAS 12, “Inventories”, IPSAS 16, “Investment Property” and IPSAS 17, “Property, Plant and Equipment” require assets acquired through non-exchange transactions to be measured at their fair value as at the date of acquisitions..

Contributions from Owners

36. Contributions from owners are defined in paragraph 8. For a transaction to qualify as a contribution from owners, the characteristics identified in that definition will be satisfied. In determining whether a transaction is a contribution from owners, the substance rather than the form of the transaction is considered to determine whether the definition of contributions from owners is satisfied. Paragraph 37 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.

37. A contribution from owners may be evidenced by any of the following:

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

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

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

Non-Exchange Transactions

38. Paragraphs 39 and 40 below address circumstances in which an entity gains control of resources embodying future economic benefits other than by contributions from owners.

39. Paragraph 8 defines exchange transactions and non-exchange transactions and paragraph 9 notes that a transaction may include two components, an exchange component and a non-exchange component.

40. 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.

Present Obligations Recognized as Liabilities

41. **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.**

Present Obligation

42. 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.

43. In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to legislation or 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 agreement 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 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.

44. In the normal course operations, a public sector entity may accept a resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipts is recognized until the taxable event occurs because in the absence of that taxable event the entity will be required to return the resources, or their equivalent value, or to net the amount against other taxes due from the particular taxpayers.

45. Similarly, if a reporting entity receives resources prior to a transfer becoming binding, it recognizes a liability for an advance receipt until such time as the transfer is binding.

Conditions

46. **A condition gives rise to a present obligation that will be recognized in accordance with paragraph 41.**

47. Stipulations are defined in paragraph 8 and paragraphs 12 - 23 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyzes any and all stipulations attaching to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

Measurement of Liabilities on Initial Recognition

48. **The amount recognized as a liability should be the best estimate of the expenditure required to settle the present obligation at the reporting date.**

49. Liabilities are measured in at the best estimate of the amount required to settle the present obligation at the reporting date. 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 is in accordance with the principles established in IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.

Recognition of Revenue from Non-Exchange Transactions

50. **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.**

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

52. When an entity recognizes an increase in net assets as a result of a non-exchange transaction, it recognizes revenue. If it has recognized a liability in respect of the inflow, when the liability is reduced, because the taxable event occurs, or a condition is satisfied, it reduces the liability and recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.

53. When the conditions relating to an inflow of resources recognized as an asset are satisfied, the liability recognized is reduced and revenue is recognized. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognized as goods or services are provided. Further if the condition specifies that a future event is required to occur, such as the raising of a matching contribution from another entity, when that event occurs, the condition is satisfied, the liability is no longer recognized and revenue recognized.

Measurement of Revenue from Non-Exchange Transactions

54. **Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity as at the date of initial recognition of assets arising from the non-exchange transaction.**

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

Taxes

56. **An entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.**

57. 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. 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 economic benefits 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.

58. 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 (if the taxation agency deposits money into a bank account it controls, it recognizes an asset and a liability). 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, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes (the taxation agency may recognize assets and liabilities if it controls the bank account into which tax payments are initially deposited).

59. Taxes do not satisfy the definition of "contributions from owners", because the payment of taxes does not give the taxpayers a right to receive distributions of future economic benefits or service potential by the entity

during its life or 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.

60. Taxes satisfy the definition of "non-exchange transaction" because the taxpayer transfers resources to the government, without receiving approximately equal value in return. Whilst the taxpayer may benefit from a range of social policies established by the government, these are not provided in consideration of the payment of taxes.

61. As noted in paragraph 43, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions arising, then 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 as the specific purposes amount to restrictions not conditions.

The Taxable Event

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

63. Consistent with the definition of an asset and with paragraph 56, resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts) because the past event that gives rise to the entity's control of the asset has not occurred, notwithstanding that the entity has already

received an inflow of resources. If the taxable event does not subsequently occur, the government has an obligation to refund the taxes paid or net such advance receipts against other taxes due from the taxpayer. 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 Tax Assets

64. Paragraph 34requires that tax assets be measured at their fair value as at the date of acquisition. Reporting entities will develop accounting policies for the measurement of tax assets that conform to paragraph 35. The accounting policies for the measurement of tax assets take account of both the probability that the tax assets will flow to the government, and the fair value of those assets.

65. 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 including, 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

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

66. Measuring tax assets and revenue using statistical models may result in the actual amount of assets and revenue recognized being different to 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.

67. In some cases the assets arising from taxation transactions and the related revenue cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances 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

68. **Taxation revenue shall be determined before deducting expenses paid through the tax system.**

69. **Taxation revenue shall not be adjusted for amounts that satisfy the definition of tax expenditures.**

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

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

72. 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, "Presentation of Financial Statements", 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

73. **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.**

74. Transfers include grants, donations, debt forgiveness, fines and in-kind goods and services. 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.

75. 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.

76. 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 agreements to transfer resources become binding on all parties before the transfer of resources takes place. Sometimes one entity promises to transfer resources, but fails to do so, consequently only when claims are enforceable, and the entity assesses that it is probable that the inflow of resources will occur will assets, liabilities and or revenue be recognized. Until a claim for resources is enforceable, the entity cannot exclude or regulate the access of the transferor to the benefits of the resources proposed for transfer.

77. Transfers do not include "contributions from owners". Transfer agreements that stipulate that the transfer entitles the transferor to distributions of future economic benefits or service potential during the entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or that stipulate that the transferor acquires a financial interest in the entity that can be sold, exchanged, transferred or redeemed, are, in substance agreements to make a contribution from owners.

78. Transfers satisfy the definition of "non-exchange transactions" because the transferor provides resources to the transferee entity without the transferee entity providing approximately equal value in return. If an agreement stipulates that the recipient entity is to provide approximately equal value in

return, the transaction is not a transfer agreement, but a contract for a transaction that should be accounted for under IPSAS 9, "Revenue from Exchange Transactions".

79. 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

80. As required by paragraph 34 transferred assets are measured at their fair value as at the date of acquisition unless another IPSAS requires another basis of measurement for the particular class of asset recognized. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs, and will require that inventories, property, plant, equipment or investment property acquired through non-exchange transactions be initially measured at its fair value. 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 34 and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

81. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the former debtor recognizes an increase in net assets because a liability it previously recognized is extinguished.

82. 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.

83. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction will often be, in substance, a contribution from owners, as described in paragraphs 36 – 37.

Fines

84. Fines are sacrifices of economic benefits or service potential imposed upon an entity by a court or other law enforcement body for breaching the requirements of laws or regulations. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is a fine. In some jurisdictions law enforcement officials are able to impose fines on individuals considered to have breached the law; the individual will normally have the choice of paying the fine, or going to court to defend the matter. Fines normally require an entity to transfer a fixed amount of cash to the government and do not impose on the government any

obligations which may be recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 27. As noted in paragraph 10, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

85. 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 is the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.

86. Bequests 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. Determining the probability of the inflow may be problematic if a period of time elapses between the death of the testator and the entity receiving the 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. The fair value of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph 91. 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.

Gifts, Donations including In-kind Goods

87. Gifts and donations are voluntary transfers of assets or personal services that one entity makes to another, normally free from stipulations and unlikely to recur on a regular basis. The transferor may be any entity including a natural person. The past event giving rise to the control of a resources embodying future economic benefits or service potential for gifts and donations is normally the receipt of the gift or donation. Gifts or donations of personal services are addressed in paragraphs 92 - 97 below.

88. In-kind goods are tangible assets transferred to an entity, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of in-kind goods.

89. Gifts and donations other than personal services, and in-kind goods 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.

90. In-kind goods will normally be recognized as assets when the goods are received, or the entity has an enforceable right to receive the goods. If in-kind goods are received without conditions attached, revenue is recognized immediately, otherwise a liability is recognized, which is reduced and revenue recognized as or when the conditions are satisfied.

91. Gifts and donations (other than personal services), and in-kind goods are measured initially at their fair value, which may be 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.

In-kind Services

92. **An entity may, but is not required to, recognize in-kind services as revenue and as an asset, which is immediately consumed.**

93. In-kind services are services provided by individuals to public sector entities for no charge or for a nominal charge. 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 in-kind services. 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, revenue, a decrease in an asset and an expense.

94. Some in-kind services do not meet the definition of an asset because the entity has insufficient control of the services provided. In other circumstances, the entity may have control over the in-kind services, but may not be able to measure them reliably, thus they fail to satisfy the criteria for recognition as an asset. Where an entity has elected to establish an accounting policy to recognize in-kind services received, the entity does not recognize the in-kind services that fail to meet the definition of an asset or satisfy the criteria for recognition as an asset, but makes disclosures about them, if they are material to the financial position, financial performance or cash flows of the entity. For some public sector entities, the services provided by volunteers are not material in amount, but are material by nature.

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

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

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

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

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

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

96. Entities will normally be able to measure the fair value of some in-kind services, such as in-kind professional services. However, when determining the fair value of the types of in-kind services described in paragraph 95 (b) – (e), the entity may conclude that the fair value of the services provided cannot be reliably measured, or the value of the services is not material. In many instances, in-kind services, other than technical assistance, provided are rendered by persons with little or no training and are fundamentally different from the services the entity would acquire if the in-kind services were not available, which would typically be provided by persons with a much higher level of training.

97. Due to the many uncertainties surrounding in-kind services, 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 in-kind services.

Pledges

98. Pledges are unenforceable undertakings to transfer assets to the entity. Pledges do not meet the definition of an asset because the 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 entity, it is recognized as a gift or donation, in accordance with paragraphs 87and 91above. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets."

Advance Receipts of Transfers

99. Where an entity receives resources before a transfer agreement becomes enforceable, the resources are recognized as an asset when they 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 is not yet binding. If circumstances changed and the transfer did not become enforceable, the entity would have an obligation to return the resources, or

their equivalent value, to the transferor. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the past event occurs, and when all other obligations under the agreement are fulfilled. When the past event occurs the liability is discharged and revenue is recognized. Where a transfer, such as a gift or donation, is not the subject of an agreement, revenue is recognized when the transferred resources are recognized as assets.

Disclosures

100. **An entity shall disclose:**

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

(b) **The amount of revenue recognized during the period from major classes including:**

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

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

(c) **For each major class of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured.**

(d) **The amount of receivables recognized in respect of each major class of non-exchange revenue.**

(e) **The amount of liabilities recognized in respect of transferred assets subject to conditions.**

(f) **The nature and type of any in-kind services received, including those not recognized.**

(g) **The nature and type of any bequests, gifts, donations and in-kind goods received.**

(h) **The existence of restrictions on assets imposed by stipulations on transferred assets.**

(i) **The existence and amounts of any advance receipts in respect of non-exchange transactions.**

101. The disclosures required by paragraph 100 enable the reporting entity to satisfy the objectives of financial reporting, as set out in IPSAS 1, “Presentation of Financial Statements” which is to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.

102. With respect to revenue, an entity discloses the major classes of revenue, the basis for determining the fair value of that revenue and the amount of any receivables recognized in respect of major classes of revenue. This information enables users to make judgments about the entity's exposure to particular revenue streams, to fair values of particular resources and to debtors, and consequently to default of debtors.

103. With respect to assets recognized as a result of non-exchange transactions, an entity discloses the amount of liabilities recognized in respect of conditions, restrictions on assets, and assets received as a result of bequests, donations, gifts and in-kind goods. These disclosures assist users in making judgments about the likely future make up of the entity's assets. Conditional assets may have to be returned and both conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Bequests, donations and gifts are received at the discretion of the transferor, as are many in-kind goods. This exposes the entity to the risk that in future years, such sources of assets may change significantly.

104. The entity also discloses 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 if the taxable event does not occur, or a transfer agreement does not become binding. Disclosure of these advance receipts enables users to make judgements about the entity's future revenue and net asset position.

105. In-kind services provide a valuable contribution to many public sector entities. Where they meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these in-kind services and measure them at their fair value. The entity makes disclosures about the nature and type of services received, whether they are recognized or not, so that users can make judgments about the entity's exposure to the possibility that such services may not be available in future. The future availability of in-kind services may have a significant impact on an entity's future operations.

Transitional Provisions

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

107. **Changes in accounting policies in respect of the recognition and measurement of taxation revenue made before the expiration of the five year period permitted in paragraph 106, shall only be made to better conform the accounting policies with this Standard. Entities may change their accounting policies in respect of taxation revenue, on a class by class basis.**

108. **When an entity takes advantage of the transitional provision in paragraph 106 that fact shall be disclosed. The entity shall also disclose which classes of taxation revenue are recognized in accordance with this Standard, which have been recognized under a accounting policy that is not consistent with the requirements of this Standard, and the entity's progress towards implementation of accounting policies that are consistent with this standard. This disclosure shall detail which classes of taxation revenue are measured according to a policy that is consistent with this Standard and which classes are not. The entity shall disclose its plan for implementing accounting policies that are consistent with this Standard.**

109. **When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the classes of taxation revenue previously recognized on another basis, but which are now recognized in accordance with this Standard shall be disclosed.**

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

111. When an entity takes advantage of the transitional provisions in this Standard, its accounting policies for each class of taxation revenue may only be changed to better conform to this Standard. An may entity retain its existing tax accounting policies until it decides to fully apply the provisions of this Standard or until the transitional provision expires, whichever is earlier, or it may change them to apply the requirements of this Standard progressively. An entity may, for example, change from a policy of recognition on a cash basis, to a modified cash or modified accrual basis before it fully applies this Standard.

112. Paragraph 100(c) requires an entity to disclose, for each major class of revenue, the basis on which it measures the fair value of inflowing resources. This is important during the transitional period because this disclosure will reveal which classes of tax revenue are measured with reference to the fair value of the inflowing resources, and which are measured on some other basis. This disclosure facilitates the financial reporting objective of full accountability, by providing information about the sources and financial condition of the reporting entity.

113. When an entity takes advantage of the transitional provision it is required to disclose its plan for implementing tax accounting policies that are consistent

with this Standard so that users can assess the performance of the entity in implementing this Standard, and so that users can be informed of the time frame the entity anticipates using to develop a comprehensive set of accounting policies that are consistent with this Standard.

Effective Date

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

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

Appendix

Amendments to Other IPSASs

IPSAS 12, "Inventories"

A1. In IPSAS 12, "Inventories", the definitions of "exchange transactions" and "non-exchange transaction" are to be inserted into paragraph 6.

A2. In IPSAS 12 the following paragraph is to be inserted between paragraphs 11 and 12:

11A. **Where inventory is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.**

A3. In IPSAS 12, the following paragraph is to be inserted between paragraphs 24 and 25:

Inventory Acquired Through a Non-Exchange Transaction

24A. Inventories may be transferred to the entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of the inventory is its fair value as at the date it is acquired.

IPSAS 16, "Investment Property"

A4. In IPSAS 16, "Investment Property", the definitions of "exchange transactions" and "non-exchange transaction" are to be inserted into paragraph 6.

A5. In IPSAS 16, paragraphs 23 and 28 are to be amended as follows:

23. **Where an investment property is acquired ~~at no cost, or for a nominal cost~~ through a non-exchange transaction, its cost is its fair value as at the date of acquisition.**

28. An investment property may be acquired through a non-exchange transaction ~~be gifted or contributed to the entity~~. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired ~~for no cost, or for a nominal cost, through~~ through a non-exchange

transaction by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

IPSAS 17, "Property, Plant and Equipment"

A6. In IPSAS 17, "Property, Plant and Equipment", the definitions of "exchange transactions" and "non-exchange transaction" are to be inserted into paragraph 12.

A7. In IPSAS 17, paragraphs 23 and 24 are to be amended as follows:

23. Where an asset is acquired ~~at no cost, or for a nominal cost~~ through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

24. An item of property, plant and equipment may be ~~gifted or contributed to the entity~~ acquired through a non-exchange transaction. For example, land may be contributed to a local government by a developer at nil or nominal consideration, to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired ~~at nil or nominal consideration through~~ through a non-exchange transaction by the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

Implementation Guidance

Measurement of Revenue from Non-Exchange Transactions — Examples

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

Example 1: Income Tax (Paragraph 62)

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.

Example 2: Measurement of Taxation Revenue (Paragraphs 64 - 67)

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 compares to other observable phenomena to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax) and banking statistics collected by the central bank. The government enlists the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with International Standards on Auditing.

IG5. The model enables the reporting entity to reliably measure the assets and revenue accruing to the government during the reporting period, which are then recognized and disclosed in the general purpose financial statements, the notes to the general purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue.

Example 3: Value added tax (Paragraph 62)

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.

Example 4: Goods and Services Tax (Paragraph 62)

IG8. A national government (reporting entity) imposes a goods and services tax (GST) on all businesses. The tax is 10 percent of the value of goods and services sold. Most businesses are required to electronically submit GST returns to the tax department on a weekly basis. However, small businesses are permitted to manually submit GST returns on a quarterly basis.

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.

Example 5: Customs Duty (Paragraph 62)

IG10. A national government (reporting entity) imposes customs duty of 10% 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.

Example 6: Death Duties (Paragraph 62)

IG12. A national government (reporting entity) imposes death duties of 40% on all estates valued at more than 500,000 currency units (CU). Medical practitioners and funeral directors are required to notify the tax department of all deaths. An assessor then makes an interim valuation of the estate to determine whether duty will be payable. Executors of estates are required to file an inventory of the estate with the tax department, which values the estate and determines the duty due from the estate. Probate cannot be granted until all duty is paid. Due to complexities in testamentary law and frequent appeals of valuations, it takes on average four years to settle estates and collect the duty due.

IG13. The government controls a resource – death duties receivable – when the taxable event occurs, which is the death of a person owning taxable property. The government recognizes assets and revenue in the general purpose financial statements of reporting period in which the person dies, or later, as soon as it can reliably measure the assets.

Example 7: Property Tax (Paragraph 62)

IG14. A local government (reporting entity) levies a tax of 1 per cent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

IG15. The government controls a resource – property taxes receivable – when the taxable event occurs, which is passing of the date on which the taxes are levied – July 31. The government recognizes assets and revenue in the general purpose financial statements of reporting period in which that date occurs.

Example 8: Advance Receipts of Income Tax (Paragraph 63)

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 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 at bank) and an increase in a liability (advance receipts). Whilst the entity is entitled to receive resources in respect of the advance receipt, it is also required to return those resources if the taxpayer does not earn income or earns less than the estimate.

Example 9: Transfer to Government Department (Paragraphs 73 - 79)

IG18. On November 1, 20X1 the legislature passes legislation that provides transfer of CU100 million to the Department of Education (reporting entity) for the year January 1, 20X2 to December 31, 20X2. The bill becomes an act (a law) on January 1, 20X2, when it is proclaimed by the government. The government can withdraw the bill before proclamation, and has done so on numerous occasions as circumstances change. The act includes a detailed budget for the Department of Education that requires that the Department only spend the appropriated amount as authorized or return it to the government. The government does not operate a central bank account – all government entities operate their own accounts at the central bank from which they authorize their own payments. Cash is transferred to the entity's bank account when the bill is proclaimed.

IG19. The Department of Education recognizes the transfer amount as an asset when it obtains control over those resources, which is when the bill is proclaimed, on January 1, 20X2. The stipulation to spend money only according to the approved budget is a condition, and a liability should be recognized in respect of this condition. The liability is discharged as the condition is satisfied, that is when the department spends according to its budget. Assets, liabilities and revenue relating to the appropriation are recognized in the general purpose financial statements of the reporting period that ends after January 1, 20X2.

Example 10: Grant to another level of government for general purposes (Paragraphs 12 - 17, 73)

IG20. The national government (transferor) makes a grant of CU10 million to a local government in a socio-economically deprived area. The local government is required under its constitution to undertake various social programs; however it has insufficient resources to undertake all of these programs without assistance. There are no stipulations attached to the grant, however the national government has indicated that if the grant money is not used appropriately, the following year's grant will be reduced. All local governments are required to prepare and present audited general purpose financial statements.

IG21. There are no stipulations attached to these grants, so the transfers are recognized as assets and revenue in the general purpose financial statements of the reporting period in which the they are received or receivable.

Example 11: Transfer to a public sector university with restrictions (Paragraphs 17 and 73)

IG22. The national government (transferor) provides a transfer of 200 hectares of land in a major city to a university for the establishment of a university campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

IG23. The university recognizes the land as an asset in the statement of financial position of reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17, "Property, Plant and Equipment". The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Example 12: Grant to another level of government with conditions attached (see paragraphs 15 - 16)

IG24. The national government (transferor) grants CU10 million to a province (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 province is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the national government.

IG25. The province recognizes the grant money as an asset. The province also recognizes a liability in respect of the condition attached to the grant. As the province satisfies the condition - that is, as it makes authorized expenditures, it reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Example 13: Research Grant (in substance exchange transaction) (Paragraph 9)

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 the corporation before being announced to the public and that the corporation 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, "Revenue from Exchange Transactions" and the relevant international or national accounting standard dealing with intangible assets apply to this transaction.

Example 14: Debt forgiveness (Paragraphs 81 - 83)

IG28. The national government (transferor) had 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 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.

Example 15: Purchase of property at a subsidized price (Paragraphs 9, 38 - 40)

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).

Example 16: Proposed Bequest (Paragraphs 85 - 86)

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.

Example 17: Pledge – Television Appeal for Public Hospital (Paragraph 99)

IG34. On the evening 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.

Example 18: Fine (Paragraph 84)

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 reporting period in which the fine is imposed.

Example 19: External Assistance Recognized (Paragraph 73 - 79)

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 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.

Example 20: Revenue of Aid Agency (Paragraphs 73, 87 - 89)

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. Any funds not used at the end of the year are required to be refunded. Green-Aid Agency's financial year begins on January1. 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. On past experience, some governments are very unlikely to pay what they owe.

IG41. For the budget year 20X8, the profile of amounts and timing of payments was as follows:

	(CU Million)
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. During 20X8, Green-Aid Agency's total expenses were CU52.8 Million. Green-Aid Agency refunded CU200,000 to governments on February 25, 20X9.

IG43. 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 banked. An equivalent CU15 Million liability, revenue received in advance, is recognized.

IG44. 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. At the beginning of 20X8, there was no obligation to refund unused funds, because the obligating event – the non-use of funds – had not yet occurred.

Example 21: In-kind Goods Recognized as Revenue (Paragraphs 34, 87 - 91)

IG45. 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 12 January 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.

IG46. On 12 January 20X5 the market price of 1,000 metric tons of rice was: CU280,000 in Government A's nation; CU250,000 in the international commodities market; CU340,000 in recipient Nation B and CU400,000 in recipient Nation C.

IG47. 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 US$250,000. 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 $250,000 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.

Example 22: Disclosure of In-kind Services not Recognized (Paragraphs 92 - 97, 100(f))

IG48. A public hospital's (reporting entity) accounting policies require it 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.

IG49. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognize the in-kind services provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 23: Contribution from Owners (Paragraphs 36 - 37)

IG50. 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.

IG51. 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.

Example 24: Grant Agreement Term not Requiring Recognition of a Liability (Paragraphs 18 - 25)

IG52. 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, 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.

IG53. National Park Department analyzes the transaction and concludes that 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 at bank) and grant revenue; it does not recognize a liability.

Example 25: Disclosures Made in the Financial Statements of Government A (Paragraph 100)

IG54. 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 (CU ',000)	20X1 (CU ',000)
Revenue from Non-Exchange Transactions		
Taxation Revenue		
Income Tax Revenue (note 1a)	XXX	XXX
Goods and Services Tax (note 1b)	XXX	XXX
Transfer Revenue		
Transfers from Other Governments (note 2a)	XXX	XXX
Gifts, Donations, In-kind Goods (note 2b)	X	X
In-kind Services	X	X

Statement of Financial Position

Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 1b)	XX	XX
Transfers Receivable		
Transfers receivable from Other Governments (note 2a)	X	X
Non-Current Assets		
Land (note 3)	XXX	XXX
Plant and Equipment (note 4)	XX	XX
Current Liabilities		
Liabilities recognized under transfer agreements (note 2a)	XX	XX

Notes to the Financial Statements:

1a. Income tax revenue is measured on the basis of cash received during the reporting period, in accordance with the policy in place before IPSAS XX, "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)" was adopted. Government A 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. Government A anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended 20X5. Government A does not recognize any amount in respect of income taxes receivable.

1b. Goods and services tax is measured on an accruals basis. 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, these have enabled Government A to develop a reliable statistical model for measuring the revenue accruing from the tax.

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.

2a. Government A recognizes transfer revenue on an accruals basis. Assets and revenue are recognized when an unconditional transfer agreement becomes enforceable, normally when cash is transferred, but occasionally when another government enacts an appropriation.

Where a transfer is enforceable, but cash is not received, Government A recognizes a receivable in respect of that transfer. At December 31, 20X2, CUX,000 was recognized as receivable from Government C under an appropriation enacted by Government C on December 21, 20X2.

Where a transfer is subject to conditions that if unfulfilled, require the return of the transferred resources, Government A recognizes a liability until the condition is fulfilled. At December 31, 20X2, Government A recognized a liability of CUXX,000 related to a transfer conditional upon Government A building a public hospital on land donated for that purpose. As at December 31, Government A had received a cash payment, however, construction has not yet commenced on the hospital, although tenders for construction were called for on November 30, 20X2.

2b. Government A receives transfers in the form of gifts, donations and in-kind goods. Gifts and donations are received primarily from benefactors of hospitals, schools and art galleries controlled by Government A, Government A recognizes these assets when control passes, usually on receipt of the resources, either cash or plant and equipment. Government A does not accept gifts or donations with either conditions or restrictions attached unless the value of the transfer exceeds CUXX,000. All non-monetary gifts and donations, and all in-kind goods are initially measured at their fair value as at the date of acquisition, fair values are obtained by reference to market prices, or appraisal if market values are not available and the item is potentially material. Gifts and donations of monetary items are initially measured at their nominal value.

During 20X2, land with a fair value of CUXX,000 was donated, subject to the restriction that it be used for a public health purposes and not be sold for fifty years. As part of an external assistance agreement with Government C, computer equipment with a fair value of CUXX,000 was provided to Government A on condition that it be used by the finance department or be returned to Government C.

3. Land includes an amount of CUXX,000, in respect of land which was donated to Government C during 20X2, it was initially measured at its fair value as at the date of acquisition. The land was acquired by the transferor at a public auction prior immediately prior to its transfer, the auction price is the fair value. The transfer of the land is subject to the restriction that Government C erect a public hospital and retain ownership of the land for fifty years.

4. Plant and equipment includes an amount of CUXX,000, which is the carrying amount of a painting donated to an art gallery controlled by Government C in 19X2, and subject to the restriction that it not be sold for a period of 40 years.

Plant and Equipment also includes an amount of CUXX,000 in respect of computer equipment provided as in-kind goods under an external agreement which imposes the condition that the computer equipment be used by the finance department or returned to Government C.

Basis for Conclusions

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

BC2. In developing this Standard, the IPSASB wanted to ensure that the requirements for recognizing and measuring revenue from non-exchange transactions are consistent with the conceptual principles underpinning the existing IPSASs. For this reason, this Standard is based on an "assets and liabilities" approach, whereby the recognition of revenue is driven by the previously determined definitions and by the criteria for recognition of assets and liabilities that have already been established. Where an entity recognizes an increase in net assets, which is not attributable to a contribution from owners, the entity recognizes revenue in respect of that increase in net assets.

BC3. In 2002, the IPSASB (then the Public Sector Committee) initiated a project to develop an IPSAS that would establish requirements for the recognition and measurement of revenue from non-exchange transactions (including taxes and transfers). The IPSASB decided to enlist the assistance of a Steering Committee (SC) to develop an Invitation to Comment (ITC) which would analyse the issues related to revenue from non-exchange transactions and propose some initial solutions. The SC was comprised of public sector financial reporting experts from a variety of countries and was chaired by an IPSASB member. The SC met four times and prepared an ITC, "Revenue from Non-Exchange Transactions (Including Taxes and Transfers) which was published in January 2004, with comments requested by June 30, 2004. Fifty-one comments were received and they can be viewed on the IFAC website (www.ifac.org/Guidance/EXD-outstanding). In November 2004, the IPSASB analysed those comments and began drafting this Exposure Draft (ED) of an IPSAS.

Introduction

BC4. This Standard is based on an assets and liabilities approach. It requires entities to undertake an analysis of an inflow of resources to distinguish contributions from owners from other transactions, then analyze the inflow to determine if an asset should be recognized, and if so whether a liability or revenue should also be recognized. The alternative was to develop requirements for different types of non-exchange transactions, with consequent risks that would not provide comprehensive guidance for all revenue from non-exchange transactions. The IPSASB is of the view that the assets/liabilities approach ensures that consistent principles can be applied to all revenue from non-exchange transactions. The Steering Committee and IPSASB were of the view that the latter approach would require considerable resources, including a more extended development process, which was considered undesirable and unnecessary. The respondents to the ITC overwhelmingly supported the view that the Standard should develop broad based principles, and include guidance for the two major classes of revenue from non-exchange transactions, namely taxes and transfers. In developing this ED, the IPSASB considered the provisions of International Accounting Standard, IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” and IAS 41, “Agriculture”.

BC5. Governments and many other public sector entities derive the majority of their revenue from non-exchange transactions. These transactions include, principally, taxation, but also transfers. However, currently there is no IPSAS that adequately addresses these types of transaction from the perspective of a public sector entity.

Entity Combinations

BC6. This Standard does not specify whether entity combinations resulting from non-exchange transactions will give rise to revenue. This is because the IPSASB has not considered the financial reporting of entity combinations in the public sector, including the applicability of International Financial Reporting Standard (IFRS) 3, “Business Combinations” to public sector entities. Where the accounting policy adopted by a public sector entity for an entity combination resulting from a non-exchange transaction does give rise to revenue, it will be recognized in accordance with the requirements of this standard. This means that resources acquired will be recognized when they meet the definition of an asset and satisfy the criteria for recognition as an asset; assets recognized will be measured initially at their fair value as at the date of acquisition. Present obligations acquired will be recognized as liabilities when they meet the definition of a liability and satisfy the criteria for recognition as a liability; liabilities recognized will be initially measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. Revenue arising from the entity combination will be the amount initially recognized in respect of assets acquired, less the amount initially recognized in respect of liabilities acquired. The ITC did not exclude from its scope business combinations and respondents did not comment on this.

Monetary and Non-Monetary Assets

BC7. This Standard does not establish different provisions in respect of revenue received or receivable as monetary assets and revenue received or receivable as non-monetary assets. The ITC included the Steering Committee's preliminary view that monetary and non-monetary assets should not be treated differently. Respondents to the ITC did not comment on this view of the Steering Committee. The IPSASB concluded that there is no reason, in principle or in practice, to make a distinction between the two. Non-monetary assets raise additional measurement concerns, but these do not, of themselves, justify different financial reporting treatments.

Enforceability of Stipulations

BC8. This Standard defines stipulations, condition, and restriction as terms in a transfer agreement or legislation or other binding arrangements imposed upon the use of a transferred asset. The Standard reflects the view that stipulations, conditions and restrictions must be enforceable. The ITC was based upon the principle that these terms are contained in laws, regulations or other binding arrangements, and are by definition enforceable. The respondents to the ITC accepted this principle and it has been endorsed by the IPSASB.

Stipulations - Conditions

BC9. This Standard requires that where a transfer imposes a condition on the transferee, the transferee should recognize a liability in respect of the transfer until the condition is fulfilled. 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. The ITC proposed this requirement, and the majority of respondents agreed with the proposal.

BC10. Some are of the view, however, that a liability should be recognized only when it is probably that any conditions attaching to the inflow of resources will be breached and that a sacrifice of future economic benefits will be required. In respect of transfers subject to conditions, an entity would only recognize a liability if it were probable that the conditions would be breached and the transferor would require the entity to return the transferred assets. Respondents to the ITC did not comment on this issue. The IPSASB rejected this proposal because it considers that it

Alternative view inserted at the request of Germany.

could result in entities recognizing revenue prematurely because the entity would not recognize on the face of its financial statements, the obligation to fulfill the condition imposed by the transfer.

Stipulations – Restrictions

BC11. This Standard does not permit entities to recognize a liability in respect of a restriction. As defined in this Standard restrictions do not impose an obligation upon the recipient entity to sacrifice future economic benefits or service potential to satisfy the restriction. Therefore, an entity is not permitted to recognize a liability in respect of these stipulations. The ITC raised this issue, and the majority of the respondents agreed that restrictions do not meet the definition of a liability or satisfy the requirements for recognition as a liability. The IPSASB is of the view that this is consistent with the principles set out in this Standard.

Stipulations – Time Requirements

BC12. The ITC included a definition of “time requirements” and related preliminary views and commentary that does not appear in this ED. Respondents to the ITC generally supported the view that an entity should recognize a liability in respect of time requirements. However, IPSASB decided that it should not “deem” time requirements to be liabilities as this would undermine the conceptual principles in the proposed IPSAS. The IPSASB concluded that whether or not a present obligation should be recognized in respect of a time requirement should be determined by application of principles reflected in the assets and liabilities approach and the definitions of conditions and restrictions. On further analysis of the types of transactions that were envisaged, the IPSASB concluded that the recipient entity would recognize a liability, either because the laws and regulations, or other binding arrangements, imposed a condition on the tax/transfer, or that the inflow of resources embodying future economic benefits that is recognized as an asset, is received in advance of the taxable or other event that gives rise to the asset’s recognition. Consequently, the IPSASB considered that requirements and related commentary on time requirements is not necessary.

Transactions with Exchange and Non-Exchange Components

BC13. This Standard notes that a single transaction can have two components, an exchange component and a non-exchange component. The IPSASB is of the view that, consistent with IPSAS 1, offsetting of items of revenue and expense should not be permitted. In some instances in the public sector, what appears to be a single transaction is, in substance, two or more separately identifiable transactions. In these cases, the IPSASB is of the view that the transaction’s component parts should be distinguished and recognized separately. Distinguishing the component parts permits users of financial statements to make decisions about the effectiveness of government policy, and the extent of any cross-subsidies. The ITC raised this issue and the majority of respondents agreed that exchange and non-exchange components should be recognized separately.

Contributions from Owners

BC14. This Standard defines "contributions from owners" in paragraph 8. This Standard reflects the view that for an inflow of resources to be classified as a contribution from owners when the substance of the transaction be consistent with that classification. Many public sector entities receive inflows of resources from the entities that control them, own them or are members of them. In certain circumstances the inflow of resources will be designated as a "contribution from owners". A company that issues shares, whether in the public or private sector, will evidence a contribution from owners by issuing additional shares in respect of the contribution. Non-GBE public sector entities are not normally established as companies, and do not normally issue equity instruments, therefore the IPSASB identified examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 37). This is consistent with the view expressed in the ITC, which was supported by the majority of respondents to the ITC.

Measurement of Assets

BC15. This Standard requires that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. This was proposed in the ITC and supported by a majority of respondents to the ITC. The IPSASB considered the basis of measurement of assets acquired through non-exchange transactions, and also therefore revenue, and concluded that assets should be recognized at their fair value as at the date of acquisition. This 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 also proposes a consequential amendment to IPSAS 12, "Inventories" to align that IPSAS with the requirements proposed by this ED and with the requirements of IPSASs 16 and 17. Fair value most faithfully represents the actual value the public sector entity accrues as a result of the transaction.

Non-depreciable Assets

BC16. This Standard does not require a liability to be recognized in respect of transfers of land or other non-depreciable assets, because these assets cannot be consumed in the provision of goods or services to third parties. An entity may receive such assets with restrictions, but not conditions. Conditions relate to the consumption of an asset according to the stipulations set out in the transfer agreement or legislation or other binding arrangements. This principle was not addressed in the ITC and respondents did not express a view, however, the IPSASB is of the view that this is the most appropriate treatment.

Bank Accounts Controlled by the Entity

BC17. This Standard assumes that all money deposited in a bank account controlled by an entity satisfies the definition of an asset and meets the criteria for recognition as an asset of the entity. This principle was explicitly stated in the ITC, and the majority of respondents accepted the principle. The IPSASB has considered this principle previously and endorses it.

BC18. Some argue that the entity will not always control all money deposited in an account controlled by the entity, and that the entity ought to only recognize as an asset, the amount that it has complete freedom to use in the pursuit of its objectives. For example, if a tax collecting entity controls the bank account into which tax receipts are initially paid, the entity should not recognize the money in the account as an asset if it is required to be paid to another government entity in the immediate future.

Norway has raised this issue; this issue was discussed by the SC and by the IPSASB. Staff are of the view that it is worth including the IPSASB's view in there.

Measurement of Liabilities

BC19. 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 expenditure required to settle the obligation on reporting date. This measurement basis is drawn from IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" and was referred to in the ITC. Respondents to the ITC accepted this principle. The IPSASB is of the view that this measurement basis is consistent with the principles established in the ITC and Standard.

Advance Receipts

BC20. This Standard provides guidance that where an entity receives resources in advance of a taxable event or a transfer becoming binding; it recognizes a liability, referred to as an advance receipt. The ITC expressed the view that advance receipts of taxes particularly, are no different to other advance receipts and that a liability will be recognized until the taxable event occurs. The respondents to the ITC supported this view. The IPSASB also supports this view and extends the principle to transfers so that where resources are received prior to a transfer becoming binding, the entity recognizes an asset and a liability for the advance receipt.

Taxable Events

BC21. 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 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. This view was proposed in the ITC, and accepted by the respondents to the ITC.

Expenses Paid Through the Tax System and Tax Expenditures

BC22. This Standard requires that expenses paid through the tax system can be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This view was proposed in the ITC and supported by the majority of the respondents to the ITC. The IPSASB is of the view that this treatment is consistent with the principles established in this Standard.

BC23. The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the OECD for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.[1] The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and does not conform to the IPSAS 1, "Presentation of Financial Statements," 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.

In-Kind Services

BC24. This Standard permits, but does not require, recognition of in-kind services. The ITC raised the issue of recognizing and measuring in-kind services (referred to as voluntary services) and noted that there were difficult control and measurement issues. It concluded that entities should not be required to

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

recognize voluntary services as assets, revenue and expenses. The majority of the respondents to the ITC agreed with this position. The IPSASB concluded that such recognition should be permitted but not required.

Staff Comments on Member/Technical Advisor Comments on Sep 16 Draft ED – Explanation of Why Comments were not Adopted.

Australia

Para 11 – Restrictions can be enforceable, although the enforcement will not require the entity to return the transferred asset to the transferor.

Para 29 – Amended, Staff are also proposing amendments to IPSASs 12, 16 and 17, to reflect the proposals in the IPSAS.

Para 39, offset has been changed to net.

Para 76 & 77, Staff are of the view that the paragraphs are clear and do not need to be combined.

IG 3 – 6, GST and VAT are slightly different, which was acknowledged by the Steering Committee, Staff prefer to include both examples.

Canada

Staff raised the issue of developing a separate ED on Contributions from Owners in Oslo, the IPSASB decided against this. In New York the IPSASB also decided that sufficient commentary to identify contributions from owners should be included in the draft ED, but nothing further. Therefore staff did not take up Canada's suggestion to develop a separate Standard.

Rick Neville contacted staff about this and advised that he was comfortable not to pursue the development of a separate standard.

Para 7, Staff are of the view that paragraph 7 works well as it is.

Staff are of the view that the Substance over Form section – should retain its position of prominence at the beginning of the Standard.

Germany

The comments acknowledged that the German view of liability recognition is radical (do not recognize a liability until condition is breached). Staff included the requested specific matter for comment.

New Zealand

Specific matter (d) – Staff have changed "legally enforceable" to "enforceable" throughout to overcome these difficulties.

Specific matter (p) – A five years transitional period has already been agreed by IPSASB.

Para 12 – conditions re non-depreciable assets – Basis for Conclusions amended.

After para 16 – examples modified.

Para 26, Staff are of the view that enforceability of stipulations is worth noting.

Para 45 & 47 – IPSASB did not want Contributions from Owners to be a recurring theme throughout the ED, they wanted to deal with it and move on.

BC – Restructure – Staff have restructured the Basis for Conclusions.

Norway

Paragraph 8 – "net assets/equity" is a well established defined term.

Para 52 – Norway disagrees that all money in an entity's bank account is controlled by the entity. This issue has been debated at length and decided. Staff have added a paragraph in the Basis for Conclusions to cover this off.

South Africa

General Comments 1 – Compound transactions has proved to be a controversial issue, it is addressed in the standard in paragraphs 9, 38 – 40 and BC10. Staff are of the view that the IPSASB has settled this issue.

General Comments 5 – We use the terms "entity" and "reporting entity" interchangeably throughout the IPSASs.

Equal Authority Paragraph – This paragraph is now an IPSASB standard paragraph.

Definition – condition – this definition has been agreed by the IPSASB.

Definition "transferred asset" – Staff are of the view that this definition is unnecessary as its component terms are defined..

Definition "assessed loss" – this term is not used in the ED.

Definition "penalty" – Staff do not think this term needs to be defined, it is not used in a different manner to its ordinary meaning.

Paragraph 7 – Paragraphs 33 – 35 have been redrafted so that they do not repeat paragraph 7.

Paragraph 9 – Paragraph 40 has been deleted.

Paragraph 10 "or when a future event does or does not occur", Staff believe that the current drafting reflects the views of the majority of the IPSASB.

Paragraph 11 – administrative process – Staff do not want to delete this, it softens the enforceability of claims away from the strictly legal context which wouldn't apply if the disputing parties were related but not in a controlled/controlling entity situation, e.g. two separate entities within the same ministerial portfolio – the Minister would adjudicate the dispute.

Para 12 – see comment on para 10.

Para 12 – exception re non-depreciable assets – the Basis for Conclusions now addresses this issue.

Para 12 – deliver of particular goods or services. Staff are of the view that if goods were given for administrative purposes they'd be restricted or unconditional, no liability would arise.

Restrictions – Staff have deleted para 41.

Para 19 – Staff believe it is worthwhile reinforcing the application of IPSAS 9.

Para 20 – Staff believe it is useful to locate this paragraph here. Fines and penalties imposed under tax laws are clearly distinct from taxes, even if they are called "penalty taxes" – they are additional imposts imposed by a law enforcement body for a breach of the tax law. Staff are of the view that fines would be separately identifiable, in the ledger system of the tax agency, so could be separately identified in financial statements.

Para 22 – "should" is not used in grey letter.

Page 17 - Flow chart – Staff are of the view that the flowchart reflects the view of the majority of the IPSASB. The footnote, is required to understand the flowchart.

Para 26 – disclosures are not mentioned. The ED cannot define what an appropriation is at it varies from jurisdiction to jurisdiction.

Paras 33 – 35 – have been redrafted and are located here to follow the structure of the flowchart.

Para 44 – provisions are liabilities.

Transfers – "resources" – the ED has not yet established that the "resources" are to be recognized as assets

Para 84 – Staff do not believe additional guidance is needed here.

Para 86, 88 – fair value – markets exist for many things, many of them online, each year fewer items lack observable markets. Valuation by appraisal is also mentioned.

Para 91(c) – the structure of the disclosures paragraph follows the structure used in other IPSASs.

IPSAS 19 contains disclosure requirements for contingent assets.

Measurement of taxes – revisions to estimates are dealt with in para 62.

Transitional provisions.- the IPSASB has never required a standard to be applied retrospectively, paragraph 102 deals with this possibility.

Net assets and net assets/equity are two different, but related things.

Staff are of the view that any example of time requirements would be rejected by the IPSASB.

United Kingdom

1. This style of writing is common throughout the IPSASs.

2. Time requirements is excluded from the ED and is addressed in the Basis for Conclusions.

3. The Steering Committee and IPSASB have noted that "grants" mean different things in different situations. The term "transfer" is used to encompass a wide variety of different transactions, including grants.

4. Non-depreciable assets are now addressed in the Basis for Conclusions.

5. Para 14 has been modified to address this.

6. The document has been reordered and extensively reviewed by the Technical Director and staff.

7. Balance is essential as stipulations are one of the most difficult concept the SC and IPSASB had to deal with.

8. Examples 1 – 6 were selected by the SC, and have been carefully crafted, they illustrate the "taxable event".

United States of America

After Para 16 Example, Staff have modified the examples a little to overcome some problems.

Para 25 – Staff prefer to leave the regulatory role in, it has met favor consistently.

Para 28 – Staff have taken out "legally" from the enforceability as per NZ comments.

Para 35 – in practice Staff are of the view that entities will have to analyze each material grant, they have to do that with other agreements such as leases, why not with grants?

Example 20 is a real life example from the UN.

Australia's Comments
Draft IPSASB ED "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)"
October 2005

General Comments

We acknowledge the considerable improvement since the draft ED on "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)" was considered at the IPSASB July 2005 meeting, including improved drafting on the sections addressing conditions and restrictions that incorporate recommendations from the sub-committee. Although the draft ED contains some requirements that we do not support, we have limited our comments below to amendments, including editorial amendments, that will allow the Exposure Draft to be issued in a timely manner.

Comments on the draft Exposure Draft

Paragraph	Comment
Throughout	We believe that "where" should be changed to "when" if the reference is to a point of time. Presently a mix of "where" and "when" are used throughout the draft ED.
Specific Matters for Comment	Specific Matters for Comment, Question (e) – We do not believe that this question reflects in the correct manner the decision of the IPSASB at their July 2005 meeting, as reflected in bullet point 3 of the draft minutes that states "Goods and services arising from a non-exchange transaction are to be initially recognised at fair value". We believe the question should emphasise that all assets acquired for no cost or nominal cost are to be initially measured at their fair value at the date of acquisition in accordance with the requirements of this Standard (rather than cross-referencing to other IPSASs, and ask whether this is the appropriate treatment. Also see comments on paragraphs 29 and 75.
Specific Matters for Comment	Specific Matters for Comment, Question (l) – This states that the draft ED will "include guidance that conditions normally give rise to a liability". The definition of condition ensures that a liability will always exist when a condition exists. We suggest that Question (l) is amended to "include guidance that conditions **always** give rise to a liability."
Specific Matters for Comment	Specific Matters for Comment, Question (m) – This states that the draft ED will "include guidance that restrictions do not normally give rise to a liability". The draft ED requires that revenue is initially recognition for restrictions and that a liability would only recognise a liability when there is a breach of a restriction and action (penalty, fine etc) will be sort. We suggest that Question (m) is amended to "include guidance that restrictions **always** give rise to the **initial recognition of revenue**."
Page 9 – Rubric Box	The title of the Standard (ED) is incorrect.
Para 6	Definition of Condition – should read "…transferred asset are stipulations that **specify**…".
Para 9	The last sentence should read "Therefore, a stipulation does not **arise** as a result…".
Para 10	We believe that the reference on the last line to "condition" should be changed to "stipulation" because the paragraph is part of a section addressing stipulations.
Para 11	We do not agree with the first sentence of this paragraph because if stipulations are enforceable, then all transfers subject to stipulations would give rise a liability. This contradicts the notion in the draft ED that restrictions (a type of stipulation) give rise to the initial recognition of revenue. There are two references in this paragraph to "laws and regulation". We suggest that they are changed to "laws or regulation", consistent with the definition of condition.
Para 12	We suggest that the last line reads "…recipient also **recognises** a liability", which is consistent with the beginning of the sentence that requires recognition of an asset.

Paragraph	Comment
Para 13	Second last sentence should read "… from the amount of a future **transfer** that the transferee would…".
Examples below para 16	In both examples the word "condition" is used twice. We suggest the references are changed to "stipulation" because the examples are referring to circumstances that will not meet the definition of a condition.
Para 18	Consistent with the comment immediately above, we suggest that the second sentence is reworded to "… to a local government entity subject **to** the **stipulation** that all local residences are connected to the national electricity grid or subject to the **stipulation** that the capacity in local area...".
Para 29	We do not believe that paragraph 29 reflects in the correct manner the decision of the IPSASB at their July 2005 meeting, as reflected in bullet point 3 of the draft minutes that states "Goods and services arising from a non-exchange transaction are to be initially recognised at fair value". The drafting of paragraph 29 implies that the accounting requirements is based on the requirements of the relevant IPSAS, regardless of whether or not that IPSAS requires fair value to be used. We believe the paragraph should emphasise that all assets acquired for no cost or nominal cost are to be initially measured at their fair value at the date of acquisition, and then go on to state that individual IPSASs also specify that fair value is required to be used.
Para 32	The lead into this paragraph should read "A contribution from owners may **be** evidenced…"
Para 39	We believe that the second sentence should read "…taxable event occurs because **at the time the amount is used to offset the amount that becomes due,** and in the absence of that taxable event the entity will be required to return the advance, or its equivalent value." We do not believe that liability in respect of prepaid tax for a specific taxable event can be extinguished by offsetting it against a tax obligation by the same individual taxpayer for a different type of taxable event. We note that the suggestion above would be consistent with paragraph IG14 that does not refer to an entity's ability to offset the amount against other taxes payable by the taxpayer.
Para 43	We suggest that the first sentence be more precise in respect to which paragraphs are the "preceding paragraphs". We suggest that the first sentence could read "An entity should consider all the facts of particular transactions and a detailed analysis of the laws and regulations or binding arrangement transferring the assets in determining the appropriate treatment in accordance with paragraphs 40 – 42."
Para 48	We believe the last part of the third sentence should read "is recognised as goods **and services** are provided.", which is consistent with the beginning of the sentence.
Para 57	We believe that the use of the word "conditions" on the third line is confusing because "conditions" is a defined term and refers to transfers, not taxes.
Para 59	For the same reason as outlined in our comment on paragraph 39, we believe the second sentence should read "If the taxable event does not occur, the government has an obligation to refund the taxes paid."
Paras 76, 77	Because cancellation of a loan (paragraph 76) is the same as debt forgiveness (paragraph 77), we suggest that these paragraphs are consolidated.
Examples 2, 3 (IG3-6)	These examples are almost identical – one dealing with value added tax, and the other dealing with goods and services tax, which in substance is a value added tax. If example 3 was intending to address sales tax, we suggest that it is amended accordingly. Otherwise, we suggest consolidating examples 2 and 3.
IG14	We suggest this paragraph goes on to address when the government recognises revenue – should this be once the taxpayer lodges its tax return (which is more than a year later)? We suggest that some of the wording that is used in IG16 and IG17 that explains when revenue is recognised could also be repeated in IG14.

Paragraph	**Comment**
Example 22 (IG52)	Consistent with our comments above on the examples below paragraph 16, we suggest that the title of Example 22 is changed to "**Stipulation** not Requiring Recognition of a Liability" because the example is referring to circumstances that will not meet the definition of a condition.
IG23	The first sentence should read "…in the statement of financial position of **the** reporting period in which…".

From: Harald Brandsaas [Harald.Brandsaas@revisornett.no]
Sent: Sunday, October 02, 2005 7:17 PM
To: Matthew Bohun
Cc: Paul Sutcliffe; tom.henry.olsen@no.pwc.com
Subject: SV: ED XX, "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)"

Dear Matthew,

I am sorry that the time available has not been as assumed, but I have read the draft and have a few observations. I have not given priority to comment on language and wording, but have concentrated on the technical and main points.

I feel that the draft now should be close to be approved at next meeting. So you have done a good job.

Even though not commenting on the language, the first part of the draft has some very long sentenced as we in Norway expect to find only from lawyers. An example is the last sentence in para 41 which is not very easily understood. There are some others also in the first 40 paragraphs.

Para 8 – In first sentence it is said ".. which represents an increase in net assets/equity, .." I had to read it more than once to understand, but I see it is correct. It could be easier understood if you said equity/net assets even though it is not technically better.

Para 9 – last sentence misses a word?

Para 12 – Propose to delete "As noted above .." in the first sentence. This is not necessary wording in a standard.

Para 45 – Should we again mention "except contributions from owners" ?

Para 52 – I disagree that bank deposits that a taxation agency has received and keeps in its bank account should be presented as an asset and a liability. To me this does not meet the definition of an asset. The agency controls the bank account, but not the money in the bank account. It is the money that should be tested against the asset definition and, to me, it does not meet it. This should only be required info in the notes.

In other parts I feel that you have adjusted according to discussions in the last meeting and I have no more proposals for change.

If Tom has some additional comments, we will come back during Monday.

Best regards,
Harald

COMMENTS FROM SOUTH AFRICA

General comments:

1. There are general inconsistencies in the way in which we discuss the return of assets under a condition. In several instances including the definition of a 'restriction', reference is made to 'future economic benefits or service potential' should be returned if not used as stipulated. In paragraph 12, reference is made to returning an 'asset or other future economic benefits'. The use of terminology should be consistent. We recommend the inclusion of the concept of returning 'an asset and/or future economic benefits or service potential' be included in the definition of a condition.
2. Several references are made to advance payments in the ED. As this ED deals with revenue, these should be changed to advance receipts. (refer paragraph 90, paragraph 19 mentions a 'prepayment')
3. The notion of compound transactions is not discussed in the ED, but is discussed in the BC. We recommend inclusion of this discussion in the text of the ED.
4. GFS classification – does paragraph .49 suggest that only the net movement in net assets will be recognized as revenue in the Statement of Financial Performance, as opposed to grossing up the revenue and expenses of the statement of financial performance?
5. References are made to entity as well as reporting entity. This terminology should be consistent throughout the document.
6. There is repetition between the discussion of stipulations, restrictions, conditions in the beginning of the document and later on. We suggest moving the discussion in paragraph's 9 to 19 to the discussion of recognizing 'Present obligations as Liabilities'.

Comments on specific paragraphs:

Equal authority paragraph

- A sentence should be inserted into the equal authority paragraph stating that 'Paragraphs in bold type state main principles.' This is consistent with new standards issued by the IASB.

Scope

- Paragraph 4 (b) – Sentence currently reads: 'Transfers including grants, fines and donations, in-kind goods and in-kind services. ' Delete the second 'in-kind'.
- Paragraph .04(b) makes reference to *in-kind services* and *in-kind goods* but the exposure draft (ED) does not explain the difference between these two concepts. Furthermore, the ED does not provide any guidance on the accounting of in-kind goods. My view is that guidance similar to paragraph .80 to .84 should be provided on in-kind goods, or alternatively, that paragraphs .80 to .84 should be expanded to incorporate in-kind goods.
- Furthermore, paragraph .04(b) refers to grants. All the items included/listed as transfers are separately explained in the ED. Shouldn't the term transfer be changed to grants?

Definitions

- Conditions – I am of the view that the last part of this definition which was deleted should be re-instated, i.e. *if not deployed as specified or if a specific future event occurs or does not occur*, as these requirements are valid to determine whether a condition has been imposed. Paragraph .18 also explains this principle.
- Conditions – Generally we refer to a 'recipient and a donor' and 'transferor and a transferee'. We have now combined the notion of a recipient and transferor together?
- Stipulations – the definition refers to "*legally* binding arrangement". IPSAS 7 however refers to "binding arrangement". Shouldn't the word *legally* be omitted to be in line with terminology used in other IPSASs? (see par .09).
- Consider the following amendment to the definition - "….imposed upon the ~~transfer of an asset~~ transferred asset by entities" - transferred asset is used throughout the ED.
- Reference is made to "transferred asset" throughout the ED. Shouldn't the term be defined?
- Paragraph 6: Consider the inclusion of the definition of a 'Penalty' and an 'Assessed Loss'.

Non-exchange transactions

- This section should be combined with paragraphs .33 to .35 as it explains the same concept or alternatively the heading should be changed to compound transactions.
- Paragraph .07 – This paragraph explains compound transactions, but the example provided in the last section that was added, isn't very clear on how the transactions should be disaggregated and recognised. I am of the view that this section should be elaborated to clearly state that compound transactions should be separated and recognised as separate transactions.

Revenue

- Paragraph .08 – I do not see the link/connection between the last sentence that was added to this paragraph, and amounts collected by agents, which is dealt with in the first part of this paragraph.
- Paragraph 8 – Last sentence – does the cost in this sentence refer to transaction costs? This needs to be more specific.

Stipulations

- Paragraph 9: The last sentence of this paragraph does not make sense and should be reviewed.
- I think that this section should be combined with paragraph .40 as it explains the same concept.
- Paragraph .10 – Sentence does not read well – Suggest re-wording: 'Stipulations relating to a transferred asset, comprise of conditions and restrictions.'
- Paragraph 10 - as with the comment on the definition of condition, the last sentence in this paragraph should expanded to state "….or when a future event does or does not occur".
- Paragraph .11 – reference is made to "legal and *administrative processes*", whereas the definition of stipulations refers to "laws or regulation or a legally binding arrangement". As "*administrative processes"* are not used in the definition, it should be omitted from the explanation, or alternatively, it should be incorporated in the definition and elsewhere in the ED.

Conditions

- Paragraph .12 – as with the comment above, the first sentence of this paragraph should expanded to state "….or when a future event does or does not occur".
- Paragraph 12 – Why is there an exception to 'non-monetary non-depreciable land'? We are now saying that we don't need to raise a liability for conditions relating to land just because we are not 'consuming

future economic benefits or service potential'? The entity would still need to return the asset regardless of the nature.

- Paragraph 12 – Reference is made to 'the delivery of particular goods or services to third parties'. Goods or services might not always be provided to third parties. The assets may be used for administrative purpose by the entity?
- Paragraph .13 – "……transferor if not deployed as specified ~~in the event of a breach~~" – the wording as per the definition should rather be used.
- Furthermore, a statement is made in this paragraph that the recipient can avoid the outflow of resources by not fulfilling the restriction. However, if the entity fulfills the restriction, there might also not be an outflow of resources – maybe I do not understand what the paragraph is trying to explain.
- Paragraph 13 – Not in favour of setting off amounts owed and due between the 'recipient' and 'transferor', especially in these instances where there are specific legally, enforceable contracts/arrangements. The Standard should rather prescribe that these amounts can only be set-off if they adhere to the requirements prescribed by IPSAS 1.

Restrictions

- I think that this section should be combined with paragraph .41 as it explains the same concept.
- Paragraph 14 – Last sentence – The sentence currently reads : 'Where a recipient is in breach of a restriction, the transferor will have the option of seeking a penalty against the recipient'. This will be dependant on the individual agreement? Consider re-wording as follows: 'Where a recipient is in breach of a restriction, the transferor may have the option of seeking a penalty or taking remedial action against the recipient. (delete the rest of the sentence)'

Substance over form

- I do not agree with the conclusion in the second example – if the asset is not used as indicated, the entity will be obligated to return it?
- Paragraph 16 – The following sentence does not make sense: 'A stipulation that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the stipulation is in substance neither a condition nor a restriction'. IPSAS 19 (paragraph .25) specifically states that for an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation. For a condition, we are saying that either the entity should (a) perform in terms of the contract or (b) return the asset/future benefits. How then would the scenario described above not result in either a condition or a restriction?

- Paragraph 17 – This paragraph makes reference to a ‘contributor’ which should be amended to ‘transferor’ to be consistent with the rest of the document. This paragraph also makes reference to monitoring of performance when ‘proportionate return’ is required. Why is monitoring only required where proportionate return is required – should it be if the asset/benefits are required to be returned either fully or proportionately?
- Paragraph 19 – Reference is made in the last sentence of this paragraph to whether or not these transactions are a result of an exchange transaction is dealt with under IPSAS 9 – it is clear in the scope of this Standard that all exchange transactions are dealt with under IPSAS 9, the point does not need to be made here again.

Taxes

- Again I think that this section should be included as part of paragraphs .51 to .57 as it explains the same concept.
- Paragraph 20: The paragraph is unclear as to whether the reference to ‘fines or other penalties’ relates to that raised in terms of Tax and Customs legislation or other legislation. It is contended that any fines or penalties raised in terms of Tax and Customs laws should be treated as tax revenue. (Also refer to Paragraph 79).
- Paragraph 21 – Replicated as paragraph 53. Either paragraph 21 or 52 should be deleted.
- Paragraph 22 – First sentence should be amended as follows: ‘An entity ~~will~~ should recognize an asset when it gains control of the resources.’

Illustration of the analysis of inflow or resources

- Page 18 – Flowchart – We recommend that two additional steps be added to the flow diagram. Firstly a block should be added right at the beginning of the diagram stating that there has been an increase in net assets. The two decisions directly from this block should relate to (a) there was an increase in net assets due to an asset that the entity gained control over, or (b) there was a decrease in a liability. Currently the decrease in a liability is merely presented in a footnote – this issue warrants separate discussion in the diagram.
- The diagram states that if the inflow does not give rise to an item that meets the definition of an asset, disclosure should be considered. A reference to IPSAS 19 should beconsidered.
- The above comment also applies to the statement that requires the entity to disclosure information where the inflow does not satisfy the criteria for recognition as an asset.
- The diagram should also illustrate how compound transactions should be accounted for.

- Page 17 – Footnote: Is it common practice to insert this footnote accompanying a diagram that is included in the body of the Standard? We recommend this be deleted as it is inconsistent with other IPSASs in issue where flow diagrams have been included in the body of the Standard.

Control of an asset

- Paragraph .26 states that appropriate disclosures should be included in the notes to the financial statements. The paragraph should be expanded to state in terms of what IPSAS these disclosures should be made so that the correct IPSAS is applied, or alternatively, the ED should be expanded to require the appropriate disclosures.
- Paragraph 26 – Reference is made to 'until such time as the appropriation is made…' What constitutes when an 'appropriation is made' – is when the Appropriation Act is passed, when the cash is paid, when the budget speech is made? Clearer guidance is needed specifically with regards to when appropriations are effective. The rest of that same sentence states that 'because the entity cannot exclude or regulate the access of government…' Surely it does not only need to exclude or regulate the access by government – it should be able to regulate the access for all external parties.

Past event

- Paragraph 27 – States that 'Public sector entities normally obtain assets from governments, other entities or taxpayers, or by purchasing or producing them.' Would the discussion of a purchase of an asset be appropriate for the discussion of what a past event may be for non-exchange revenue transaction?

Measurement on initial recognition

- Paragraph 29 – This paragraph makes reference to 'Assets are measured in accordance with the appropriate IPSAS or accounting policy.' The reference to accounting policy should be deleted so as to be consistent with other IPSAS. All other IPSASs only make reference to the appropriate/applicable standard, with no mention of the entity's accounting policy. In this instance, reference should only be made to IPSAS 16 and 17.

Contingent assets

- Paragraph 30 – A similar paragraph dealing with contingent liabilities should be inserted under the section dealing with liabilities. Contingent assets may arise in instances where transferors decide to act on breaches of conditions.

Non-exchange transactions

- Paragraphs 33 to 35 – Why are these paragraphs situated here? These paragraphs seem to deal very briefly with the notion of a compound transaction, and should be discussed at the outset of the Standard i.e. that these types of transactions occur and that they should be dealt with based on the substance of the transaction i.e. if they are predominantly based on exchange transactions, then IPSAS 9 applies, and if non-exchange based, this Standard would apply. Paragraph 34 should also be amended to include the notion that 'no or nominal consideration' may be given.

Present obligation

- Paragraph .38(b) should also include transfers from national governments to other public sector entities (for example public entities) and transfers from provincial governments to local governments, or is this to SA specific?

Restrictions and conditions

- Paragraphs 41 to 43 – These principles have largely been repeated from paragraphs 9 to 13. All these paragraphs need to be streamlined so as to avoid unnecessary duplication.

Measurement of liabilities on initial recognition

- Paragraph 44 – This paragraph discusses the recognition criteria for 'provisions' and not liabilities. Further it goes on to discuss that provisions should take into account all risks and uncertainties that surround the events causing the provision. Surely the liability portion should equal the value of the asset or future economic benefits or service potential as opposed to recognizing one amount as an asset and a different amount as a liability? The value of the asset or future economic benefits/service potential is the amount that will either be returned or utilised? The Basis for Conclusions (paragraph 24) explains this principle better than the discussion in the body of the Standard – consider including this paragraph in the body of the text or explaining along those lines.

Recognition of revenue from non-exchange transactions

- Paragraph .46, .47 and .48 - consider the following amendment: "….the carrying amount of the liability recognised and recognise an equal amount of revenue".

Taxes

- Paragraph 51 – I think the paragraph should also state that the definition of an asset has to be met as explained in paragraph .54.

  "Taxes shall give rise to an asset when the definition of an asset is met and the taxable event occurs."

- Consider the following amendment to paragraph 56 "…..without receiving approximate equal ~~equivalent~~ value in return." – to agree with the wording used in the definition of non-exchange transaction.

Taxes received in advance

- Paragraph 59 – This paragraph discusses the notion of offsetting different taxes owed and due by a taxpayer. This principle may not be appropriate for all tax systems e.g. in SA, the revenue services are not allowed to offset a VAT credit against a PAYE debit for a specific entity or individual. Consider deleting this sentence.

Measurement of tax assets

- Paragraph 60 – The second sentence currently states : 'Taxes receivable are financial instruments similar to accounts receivable.' Taxes are not financial instruments as stated in paragraph 17 of IPSAS 15. Paragraph AG 12 of IAS 32, also provides explicit guidance regarding 'statutory requirements imposed by governments'. Either the relevant definitions and paragraphs of IPSAS 15 need to be amended consequentially as a result of including this paragraph as it is, or this paragraph will need to redrafted.
- Paragraph 62: Refers to IPSAS 3, further revision of the IPSAS need to be done in order to identify requirements as tax receivables must be recorded and treated accordingly.

Transfers

- This section refers to transferred resources, whereas the rest of the ED, including definitions, refers to transferred assets. Shouldn't the wording be amended to be consistent with the rest of the ED?
- Paragraph 68 – I think the paragraph should also state that the definition of an asset has to be met as explained in paragraph .70.

  "Transfers shall give rise to an asset when <u>the definition of an asset is met</u> and the entity attains control of the transferred assets ~~resources~~."
- Paragraph .69 should also refer to in-kind goods as per paragraph .04(b).
- Paragraph .69 – "…without providing approximately equal <u>value</u> ~~consideration~~ in exchange…." – to agree with wording used in the definition of non-exchange transactions.
- Paragraph 71 – This paragraph makes references to the fact '…that the entity assesses that it is probable that the inflow of resources will occur, will assets and revenue be recognized.' This paragraph should mention that conditions may be attached to the transfer and may give rise to a liability, dependant on the extent to which the conditions have been fulfilled.
- Paragraph 73 – Reference is made to 'recipient entity' – terminology should be consistently applied across the document.
- Paragraph 75 – This paragraph states that: 'As noted in paragraph 29 transferred assets are measured in accordance with the entity's accounting policy for measuring assets of the class of asset that has been

transferred. These policies are consistent with the IPSASs …' Same comment as previously stated for paragraph 29. Reference should be made to the specific standards dealing with these transactions i.e. inventories, investment properties and PPE.

- Paragraph 78 – This paragraph states that '…in substance this is a debt for net assets/equity swap…' This is not actually a swap but rather a conversion of debt to equity.

Fines

- Paragraph .79 – "fines are sacrifices of economic benefits or service potential imposed …" – to be in line with definition of fines.

In-kind services

- Paragraph .84 states that the entity will normally be able to determine the fair value. I think the section should be elaborated to provide guidance on how to determine fair value when an active market is not available.
- Paragraph 84 – The notion of in-kind services being rendered by a person with no or little training is a very broad assumption to make. Delete from the paragraph.

Gifts and donations

- Paragraph .86 – "….there is no doubt as to the future economic benefits or service potential flowing to the entity….".
- Paragraph .86 states that the entity will able to determine the fair value through an appraisal. I think the section should be elaborated to provide guidance on how to determine fair value when an active market is not available for the gift of donation that was received.
- Paragraph 86 – In the absence of current market prices, what would you suggest?

Bequests

- Paragraph .88 – "….as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity….".
- Similar to the comment on gifts and donations, the section should be elaborated to provide guidance on how to determine fair value when an active market is not available for the bequest received.

Disclosure

- Paragraph 91 (c) – Basis of measurement – This point should be combined with point (a) dealing with the accounting policies for recognition.
- Paragraph 91(d) – "….in respect of transferred assets ~~transfers of resources~~" - transferred asset is used throughout the ED.

- Paragraph .91(e) - a similar disclosure requirement should be included to require information on the nature and type of gifts and donations, bequests, and in-kind goods received.
- Paragraph 91 – A bullet point should be added for receivables recognised.
- Paragraph 91 – A bullet point should be added for contingent assets, as described in paragraph 30.
- Paragraph .92 – "…to satisfy the stipulations of the law or regulation ~~legislation~~ or binding arrangement ~~agreement~~. " – to be in line with the definition of stipulation.
- Paragraph 94 – shouldn't this additional disclosure requirement rather be exposed as an amendment to IPSAS 17?

Measurement of taxes

- Shouldn't guidance be provided on how to account for an incorrect measurement that was made in prior years, or alternatively, a reference could be included to the appropriate IPSASs.

Transitional provisions

- It is still not clear to me whether the transitional provisions require an entity to apply the Standard prospectively or retrospectively.

Other issues

- In some instances reference is made to *net assets* as opposed to *net assets/equity*, for example paragraphs .22 (last sentence), .47, 49, .76 and .78.
- I think the ED should explain, even if it is only through an example, that transfers subject to time restrictions can either be a condition or advance payments. This is explained in the BFC, but I think guidance is still required in the ED.

From: Viehweger [viehweger@idw.de]
Sent: Friday, September 30, 2005 1:08 PM
To: Matthew Bohun
Cc: Norbert Vogelpoth WP/StB Dr. (E-Mail)
Subject: AW: ED XX, "Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)"

Attachments: nontrans.pdf

Dear Matthew,

due to the discussion at the IPSASB meeting in New York you probably can imagine that I am personally not so happy with the changes in connections with stipulations, conditions, etc. I have little hope that the majority of the IPSASB will support the "extreme" pure liability approach. Therefore I would like to ask you or the IPSASB to amend the Basis of Conclusion for the alternative view. Maybe you want also add a question to the specific matter on comment.

In the following I try once more to summarize this view. See also our comment letter to the ITC which you find attached. You or another native English-speaker probably find better words for it:

The question if and when non-exchange transfers with stipulations should be treated as revenues only arises if there is no corresponding liability to be recognised (From my understanding of the discussion we are not appart in this question). But in my opinion the question has to be considered in two separate steps:

- Is a liability to be recognised?
- If not, when should the transfer be recognised as revenue?

In my view - irrespective of the question whether the stipulation which is attached to the non-exchange transfer has the character of a restriction or condition - a liability has to be recognised if both of the following criteria are fulfilled:

- The stipulation is of that type that an obligation to repay would require the recipient to transfer present resources - not only future resources - back to the transferor of the non-exchange transfer (otherwise the definition of “liability” is not fulfilled).
- It is more likely than not that an obligation to repay will arise.

According to these criteria the recognition of a (contingent) liability depends on the type of stipulation and on the individual circumstances of the case as follows:

- If the obligation to repay occurs under the condition that the contributed asset is used for a specific purpose or for a certain period of time in a certain place, this obligation would meet the first criterion. But as it is to be expected that the recipient will be anxious to avoid repaying the transfer and, consequently, will use the asset accordingly, no obligation has to be recognised as long as there are no contrary indications; or in other words, an avoidable obligation does not create a liability (in addition, an impairment of the funded asset should be considered).

- If the obligation to repay occurs under the condition of future revenues from the funded project, it can be expected that this condition will be fulfilled. This obligation would require the recipient to transfer present resources, for example if the public sector entity would not held any future net income. Consequently, a liability has to be recognised.
- If the obligation to repay occurs under the condition of future net income of the enterprise, the liability to recognise arises to that extent and at that point in time this net income is shown in the annual financial statements. For previous periods no obligation to transfer present resources exists.

If there is no corresponding liability, revenue shall be recognised. To my understanding this treatment is in line with the G4+1 Paper "Accounting by recipients for non-reciprocal transfers, excluding contribution by owners.: Their definition, recognition and measurement" does not comply with IAS 20 and E 65).

Further I have a question with regard to the section on Recognition of Assets (para. 23 ff.). It is clear that non-exchange transfers should in principle be recognised, if the recipient has an enforceable right to receive the transfer. From para. 23 you could interpret that a non-exchange transfer shall already be recognised without an enforceable right at the balance sheet date, if the recipient meets all relevant pre-conditions at the balance sheet date and the transfer is approved by the relevant authority before the financial statements are authorised for issue. Is this interpretation correct?

If you have any trouble to understand my email/English or you would like to discuss my issues before our meeting in Captown in order to make the ED ready for approval, please contact me. I would be happy if I can be of help. I am also interested to finish the ED and to get it out.

Best regards,
Catherine

Cathérine Viehweger, WP StB
Technical Manager

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DER
WIRTSCHAFTSPRÜFER
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Mr. Paul Sutcliffe
Technical Director of the
IFAC Public Sector Committee
545 Fifth Avenue, 14th Floor

New York, New York 10017
USA

August 13th, 2004
524/520

Dear Paul,

Re: IFAC Public Sector Committee invitation to comment – Revenue from Non-Exchange Transactions (Including Taxes and Transfers)

We would like to thank you for the opportunity to comment on the above-mentioned document. We include our comments in answering each of the questions raised in the document.

(a) *Do you agree with the "assets and liabilities" approach to the recognition of revenue from non-exchange transactions that has been proposed by this ITC? That is, do you agree that revenue should be recognized when a public sector entity recognizes an increase in net assets/equity that does not arise from a contribution from owners?*

The so-called assets and liabilities approach is, in fact, the fundamental principle of the ITC. We share the view that non-exchange transactions should be treated in line with the IASB Framework for the Preparation and presentation of Financial Statements. Consequently, non-exchange transactions without stipulations should be recognized either as assets or as a reduction of liabilities and the corresponding effect on net income should be recognized as revenue.

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As far as accounting treatment according to the IASB Framework is concerned, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prescribes a basis for “matching” revenues to expenses, which the above treatment does not necessarily follow.

(b) *Do you agree that public sector entities should be permitted to designate a transfer to a wholly-owned controlled entity as a contribution from owners as outlined in paragraph 2.7?*

No, we do not agree. However, we regard the terminology "contributions from controlling entities" as more appropriate than "contributions from owners" for public sector entities.

(c) *Do you believe there are circumstances in which "contributions from owners", as defined may be non exchange transactions?*

We are of the opinion that non exchange transfers from "owners" or "controlling entities" to public sector entities should either be directly treated as equity movements or be recognised as revenue. In general, as in the private sector, the owner/controlling entity should also have the option of determining the substance of the transaction. For instance, when the transfer made represents compensation for expenses incurred by the recipient, recognition as revenue on the part of the latter will be appropriate.

(d) *The Steering Committee proposes that some components of non-exchange transactions be accounted for in the same manner as exchange transactions. Do you agree with this treatment?*

We agree as the proposed treatment is in line with the assets and liability approach. We refer to our remarks under a) above.

(e) *Do you agree with the Steering Committee View that some non-exchange transactions can consist of an exchange component and a non-exchange component?*

We share the view of the Steering Committee that when the recipient receives an asset/service giving back less than the approximately equal value, the transaction comprises the two components exchange transaction and non-exchange transaction. These two components should be accounted for separately, according to the nature of the transactions.

(f) *Do you agree with the Steering Committee View that the taxable event for property taxes is the passing of the date on which taxes are levied, or the period for which the tax is levied, if the tax is levied on a periodic basis? If you do not agree, what do you think the taxable event is?*

In accordance with IPSAS 9, paragraph 21, revenue has to be recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to the public sector entity. In respect of property taxes, we generally agree that these can similarly be regarded as probable at the passing of the date on which the taxes are levied, or the period for which the tax is levied, if the tax is levied on a periodic basis. Nevertheless, the Steering Committee should bear in mind that there are significant differences from jurisdiction to jurisdiction concerning the details relevant to taxation.

(g) *Do you agree with the proposal that disclosures about the "tax gap" should be made in the notes to the general-purpose financial report when they can be reliably estimated? The Steering Committee has not made a formal statement that such disclosures should be made, however, it would be interested to receive comments from respondents about whether it is possible to make reliable estimates of the tax gap. Do you think disclosures about the nature of the tax gap should be made in general purpose financial statements without including any numerical estimates of the amounts involved?*

We are of the opinion that only the second approach concerning the tax gap (paragraph 3.11) is practicable. That is, to disclose information about the nature and extent of the tax gap in the notes to the general purpose financial statements. Nevertheless, whilst we recognise that narrative disclosures alone in respect of the tax gap might not be very useful to the addressee, as only broad estimates of the tax gap could be expected, this would not improve the situation. A further question to be considered is, whether disclosing information on high tax gaps might lead to an increase in future tax evasion, as honest taxpayers might perceive such information as a disincentive to pay tax.

(h) *Do you agree with the Steering Committee View that "expenses paid through the tax system" should be recognised separately in the statement of financial performance and that tax revenue should be grossed up in respect of expenses paid through the tax system? If you do not agree with the Steering Committee View, do you agree with the minority view that taxation revenues should be reported net of expenses paid through the tax system to the extent than an individual's tax bill is reduced to zero?*

We do not recognise any characteristic of tax revenue that would require an exception from the concept of gross recognition prescribed in IPSAS 1 Presentation of Financial Statements.

(i) *Do you agree that, where physical assets are transferred to a reporting entity subject to conditions that they be consumed in the provision of goods and services, revenue should be recognised in respect of the transfer as the physical asset is consumed?*

No, we doubt that the recognition of revenue as the physical asset is consumed reflects the asset and liability approach. The question of if, and when, revenue from non-exchange transactions should be recognized only arises when no corresponding liability is to be recognized.

(j) *Do you agree with the Steering Committee's conclusions regarding stipulations? That is do you agree that:*

(i) *restrictions do not give rise to liabilities that should be recognised in the statement of financial position;*

(ii) conditions give rise to liabilities that should be recognised in the statement of financial position; and

(iii) time requirements give rise to liabilities that should be recognised in the statement of financial position?

As mentioned above the question as to if, and when, revenue from non-exchange transactions should be recognized only arises when no corresponding liability is to be recognized. We suggest that the ITC should stress that the accounting treatment has to be considered in two separate steps:

- Is a liability to be recognized?
- If not, when should the transfer be recognized as revenue?

As far as the recognition of a liability is concerned, we doubt whether the differentiation between transfers with restrictions (limit or direct the purposes for which transferred assets may be used, but do not specify that the assets must be returned to the contributor if not deployed as specified), conditions (stipulations that specify that transferred assets must be returned to the contributor if not deployed as specified, or if a specified future event occurs or does not occur) and time restrictions (prohibit the use of transferred assets until a specified point in time) is really necessary.

In our opinion,- irrespective of whether any stipulation, which may be attached to a transfer, has the character of a restriction or condition, a liability has to be recognized if certain criteria are fulfilled, that is:

- The stipulation is such that an obligation to repay would require the recipient to transfer present resources back to the contributor.
- It is more likely than not that an obligation to repay will arise.

According to these criteria the recognition of a liability depends on both the type of stipulation and on the individual circumstances of the case.

Therefore, restrictions do not give rise to liabilities that should be recognised in the statement of financial position, because they will never have to be returned to the contributor, even when not deployed as specified.

If the obligation to repay/return the asset occurs under the condition that the contributed asset is used for a specific purpose or for a certain period of time in a certain place, this obligation would meet the first aforementioned criterion. But as it is to be expected that the recipient will be anxious to avoid repaying/returning the asset and, consequently, will use the asset accordingly, no obligation has to be recognized as long as there are no indications to the contrary. This is, in a way, already lined out in paragraph 4.32. In addition, impairment to the funded/contributed asset should be taken into consideration, especially in cases involving time restrictions.

If the obligation to repay/return the asset occurs under the condition of future revenues from a funded project, it can be expected that this condition will be fulfilled. A liability has to be recognized, because this obligation requires the recipient to repay present resources or return the asset even if the recipient does not yield any future net income from the project.

We prefer the aforementioned clearly definable criteria for the recognition of a liability. In our view, these will lead to appropriate treatment and are, in addition, easier to handle than the criteria adopted in the ITC.

In our view, if no corresponding liability is to be recognized, it is consistent with the asset and liability approach to recognize the transfer as revenue. However, the Steering Committee should consider the need for an impairment test concerning the funded asset, especially when there are usage restrictions or time restrictions.

(k) *Do you agree with the proposition in paragraph 4.38 that liabilities should be reduced and revenue recognised when actual performance has occurred? Alternatively, do you believe that entities should decrease the liability and recognise revenue when it is probable that performance will occur?*

In our view the first treatment is consistent with the asset and liability approach. The carrying amount of the liability should be reduced and revenue recognized to the extent the conditions have actually been satisfied.

(l) *Do you agree with the Steering Committee View that voluntary services should not be recognised as assets and revenue in the general purpose financial statements?*

We share the view of the Steering Committee that the provision of voluntary services does not meet the definition of an asset. In addition we doubt if such voluntary services can be reliably measured and quantified.

(m) *Do you agree that the PSC should develop one IPSAS on revenue that includes both exchange and non-exchange transactions within its scope?*

INSTITUT DER WIRTSCHAFTSPRÜFER IDW

We are of the opinion that there should be only one IPSAS covering revenue from both exchange and non-exchange transactions, and that this IPSAS be based on the asset and liability approach.

(n) *Do you think that an IPSAS on revenue should require separate disclosure of revenue from exchange transactions and revenue from non-exchange transactions?*

In paragraph 1.13 the ITC points out that the asset and liability approach can result in eliminating the distinction between exchange and non-exchange transactions. Consequently, there is no compelling reason for separate disclosures.

We sincerely hope that our comments will be of practical use in your development of an exposure draft. If you have any further questions about our views on these matters, we would be pleased to be of further assistance.

Yours truly,

Gerhard Gross
Executive Director

Cathérine Viehweger
Technical Manager

DRAFT ED ON NON-EXCHANGE REVENUE
COMMENTS FROM THE UNITED KINGDOM

OVERALL

Thanks to all concerned for the great improvement to the ED both during and following the last meeting.

We have some comments on the current draft, which we hope will be helpful. These are divided into two – issues of substance and drafting detail.

Please let me know if you would like further details on any of the suggestions.

ISSUES OF SUBSTANCE

1. Assets are defined as 'resources …from which future economic benefits or service potential are expected to flow….'. Thereafter, throughout the text, instead of the words 'assets' or 'resources' the phrase 'economic benefits or service potential' tends to be used which is cumbersome and sometimes leads to rather long sentences which are unnecessarily complex and at times a little confusing. A key example of this is the definition of fines where the first line would be much clearer if it read 'A fine is a sacrifice of resources by a'. Other examples where sentences are confusing are some of the other definitions in para 6 and in paras 8,13,14,15,41,42,79,81,87.
2. The time requirement for grants although a major issue in the ITC does not appear to be addressed in the document except possibly through the examples in the appendix. One might assume that because taxes paid in advance by taxpayers are treated as liabilities the same treatment would be appropriate for grants but this needs addressing positively in the document.
3. It seems odd to have no specific section on accounting for grants, one of the major items and one with significant variations in accounting currently. We suggest that such a section is added.
4. Paragraph 12 – we are still uncomfortable with the exclusion of non-depreciable assets. Perhaps we can discuss again at the next meeting.
5. Restrictions - Para 14 and the definition in Para 6 taken together are actually quite confusing as written. This is because the second part of para 14 appears to contradict the assertions in the definition and the first part of para 14 by saying that a restriction can in fact result in an obligation. Further the third sentence in para 14 'The recipient can avoid the outflow of resources by not fulfilling the restriction.' reads in such a way that it seems to give the body encouragement to avoid its obligations. We therefore suggest the following amendments:
    - add a new sentence at the end of the definition of restrictions in para 6 and after the first sentence in Para 14 as follows: 'However, restrictions may still indirectly result in an outflow of resources if not fulfilled.'
    - add at the end of the second sentence in Para 14 after 'to third parties' as follows: 'and therefore a liability does not arise on recognition of the asset'.
    - delete the third sentence in para 14 which reads 'The recipient can avoid the outflow of resources by not fulfilling the restriction.'
6. The ordering of the document needs reviewing especially to remove duplications. The current text results in duplications in the definitions and later text. See the detailed drafting points below for specific examples.
7. We have a concern that the balance of material in the ED is weighted too much towards paras on stipulations, restrictions and conditions in proportion to, for example, tax. Can this balance be reviewed and reconsidered?
8. The first six examples in the Appendix need reconsideration, as the questions are complex but the answers bland and unhelpful.

DETAILED DRAFTING POINTS

- First page – the Mission of IFAC, first line of second paragraph – there should be a capital letter on 'international'
- Introductory page – third line under 'Background' – there should be a comma after 'gifts'
- Para 7 – we recall that it was agreed to reverse the order of the last two sentences in order to aid clarity
- Para 9 – add 'arise' in the last sentence between 'does not' and 'as a result'
- On the version we have the flow chart is incomplete.
- Para 23 – suggest having three criteria to link better to the later text
  -control of assets
  -probable inflow of benefits
  -reliable measurement.

  Para 24 would then be superfluous instead of repeating part of 23.
- Para 29 – we have a note that there was to be an addition to this paragraph referring to IPSAS 12 (inventories)
- Paras 33-35 partially duplicate para 7. Probably better to have the material around para 7 and delete these paras.
- Title above paragraph 36 – we recall that it was agreed that this title should be amended to read 'Recognition of Liabilities' in order to match the title for assets above para 23.
- Para 39, first line, insert the word 'of' after 'course'. We don't understand the words 'due from the particular taxpayers' at the end and therefore suggest that those words are deleted.
- Para 41 – three lines before the end, add a full stop after 'fine' in place of the comma and start a new sentence with 'However'.
- Paras 38-42 partially duplicate paras 9-14 – (perhaps they could be merged in some way, or the ordering amended).
- Title above para 44 – delete 'of Liabilities' to be consistent with the title above para 29.
- Para 50 duplicates para 47 and is nothing to do with measurement.
- Para 53 is an exact duplicate of Para 21.
- Para 55 seems to be irrelevant and stating the obvious. We suggest it is deleted.
- Para 58 – we recall that it was agreed to insert 'laws or regulations' after 'in' in the last line before sub para (a).
- Para 59 duplicates para 39. If para 59 is retained then 'government' in the middle of the para should read 'entity'.
- Para 63 - 'taxation' in line 1 should read 'taxable'.
- Para 64 – we suggest that 'gross of' is clearer than 'before deducting'.
- Para 72 – the wording is rather confusing and would benefit from a redraft to put the matters regarding transfers into the positive rather than the negative.
- Para 75 appears to duplicate para 29 in large part. We recall that it was agreed to amend para 75 so that it deals with particular issues.
- Para 78 – the punctuation in this sentence means that it does not read clearly. We suggest deleting and comma after 'entity' and substituting the word 'and'.
- Para 79 – first two lines do not quite line up with the definition in para 6.
- Para 80 – add 'an equal amount as an expense or' after 'revenue and' in line 2.
- Para 81 – we recall that we agreed to add another paragraph referring to a good to alongside the reference to a service.
- Para 82 – last sentence – we suggest for clarity that it be amended to read 'For some public sector entities, the services provided by volunteers that are not material in amount, may be material by nature.'
- Para 85 – we suggest that, for clarity, the second sentence be amended to read 'The donor may be a individual or an entity.'
- Para 88 – we suggest that the first part of the last sentence be amended to read ' In jurisdictions where estates of the deceased are subject to taxation'.

- IG13 – add ‘of’ after ‘estimate’ in line 3.
- IG14 – add ‘the’ before ‘self-employed’ in line 1.
- IG16 – we recall that it was agreed that the final sentence of this paragraph should be deleted.
- IG30 & 31 – we recall that it was agreed that these paras be reworded to refer to half price rather than half of the land.

Liz Cannon
28th September 2005

From: Martha.JonesDenning@cica.ca
Sent: Wednesday, October 05, 2005 2:34 PM
To: matthewbohun@ifac.org; psutcliffe@ifac.org
Cc: Ron.Salole@cica.ca; neville@mint.ca
Subject: Revenue from Non-Exchange Transactions ED

Attachments: ED XX Revenue from Non-Exchange Transactions (16 Sep 05) MJD Version.doc; ED YY, Contributions from Owners, MJD Version.doc

Hi Matthew:

Sorry for the delay in getting my comments to you on the draft ED. I and unwell and working part-time and this was the earliest I could get them to you.

The new version of the ED has a lot of overlap between the definitions section and the sections that set out the accounting. In some areas in the definition section, the paragraphs begin to touch on the accounting and I believe that those thoughts should be left until later. In some cases, there is outright duplication of paragraphs between the definition section and the sections that detail the accounting principles and those should be removed.

In addition, I believe that there is a lot of confusion about the status of contributions from owners. I know that they are not considered to be exchange transactions. And, I also believe that they do not strictly meet the definition of non-exchange transactions. But, given the IPSASB definitions of exchange and non-exchange transactions, such that a transaction must be categorized as one or the other, I will buy in to the classification of such contributions as non-exchange. However, including contributions from owners in a standard on revenue is a mistake. They do not give rise to revenue and no-one will look for guidance on them in a revenue standard. Therefore, they should be excluded up front in the scope section of the NER Standard and a separate ED developed for a standard on contributions from owners. Even if they are retained in the NER ED, the accounting for them should be stated clearly if they are not to be addressed in any other standard. Right now, the only reference to how to account for these contributions is in the diagram, which states Recognize an increase in an asset and a contribution from owners. However, there is no mention of this accounting in the text of the document.

After discussion with Ron Salole, we agreed that I would re-work the material to give it a different flow, remove the duplication and overlap, and scope out contributions from owners from the Standard. I hope that you will give this some consideration.

I am attaching the two mark-ups that do those tasks. Please note that I did not have time to re-do the diagram nor the table of contents for the ED XX. I have created a new ED YY for Contributions from Owners and have added in some new guidance to help with the substance over form evaluation of such contributions. My draft EDs are not perfect yet, but I think that the flow is less confusing.

Please call me or e-mail me if you have any questions. *(See attached file: ED XX Revenue from Non-Exchange Transactions (16 Sep 05) MJD Version.doc)(See attached file: ED YY, Contributions from Owners, MJD Version.doc)*

Best regards,

Martha

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Specific Matters for Comment

(b) Exclude contributions from owners from the scope of the Standard (paragraphs 6-8) and address this issue in a separate Standard.

International Public Sector Accounting Standard IPSAS XX

Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)

Contributions from Owners

6. Contributions from owners are excluded from the definition of revenue and do not represent taxes or transfers and are therefore not addressed in this Standard. As they are not revenue, contributions from owners are also not addressed in IPSAS9 "Revenue from Exchange Transactions". They are addressed separately in the exposure draft of IPSAS YY, "Contributions from Owners". The characteristics identified in paragraph 7 indicate the form that a contribution from owners may take. In determining whether a transaction is a contribution from owners, the substance rather than the form of the transaction is considered. 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.

7. A contribution from owners may evidenced by any of the following:

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

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

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

8. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction will normally be, in substance, a contribution from owners. This is because the increase in net assets increases the value of the controlling entity's investment in the controlled entity, in substance this is a debt for net assets/equity swap. In other cases where a debt is settled by providing an ownership interest in the

debtor entity to the creditor, the entity recognizes the transaction as a contribution from owners, not as a transfer.

Definitions [section reordered]

Revenue

10. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control use or otherwise benefit from the collected assets in the pursuit of its objectives. Revenue can arise from both exchange and non-exchange transactions. Where an entity incurs some cost in relation to a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, any outflow of resources is recognized as a cost of the transaction.

Non-Exchange Transactions

11. In some transactions there is an exchange of approximately equal value, these are exchange transactions, and are addressed in other IPSASs.

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

13. There are a further group of transactions where the entity provides some consideration that does not approximate the fair value of the resources received. In these transactions the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately.

~~7.~~14. For still other transactions, their substance rather than their form must be examined to determine if they are ~~In distinguishing between~~ exchange ~~and~~ or non-exchange transactions.~~,~~ ~~the substance rather than the form of the transaction should be considered.~~ For example, the sale of goods is normally classified as an exchange transaction, however if the transaction is conducted at a subsidized price, that is a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In some circumstances a transaction may comprise two components, an exchange component, and a non-exchange component, which are recognized separately. 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.

Stipulations

~~10.~~16. Stipulations comprise conditions on a transferred asset (conditions) and restrictions on a transferred asset (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), only conditions require that future economic benefits or service potential, be returned to the transferor in the event that the condition is breached (return obligation). Thus only transferred assets with conditions will give rise to a related return obligation that meets the definition of and should be recognized as a liability by the recipient entity.

~~11.~~17. Stipulations are enforceable through legal or administrative processes. If a term in laws and regulation or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations, but may arise from other terms in laws and regulations or other binding arrangements. IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” establishes requirements for the recognition and measurement of constructive obligations.

~~**Contributions from Owners**~~

~~31.~~~~**Contributions from owners are excluded from the definition of revenue. The characteristics identified in paragraph 32 indicate the form that a contribution from owners may take. In determining whether a transaction is a contribution from owners, the substance rather than the form of the transaction is considered. 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.**~~

~~32.~~~~**A contribution from owners may evidenced by any of the following:**~~

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

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

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

~~**Non-Exchange Transactions**~~

~~33.~~~~**In some transactions there is an exchange of approximately equal value, these are exchange transactions, and are addressed in other IPSASs.**~~

~~34.~~~~**In other transactions the entity will receive resources for no consideration, such as taxes or transfers. These are non-exchange transactions and are addressed in this standard.**~~

~~35.~~~~**There are a further group of non-exchange transactions where the entity provides some consideration that does not approximate the fair value of the resources received. In these transactions the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately.**~~

~~Present Obligations Recognized as~~Recognition and Measurement of Liabilities

~~39.In the normal course operations, a public sector entity may accept a payment prior to a taxable event occurring. In such circumstances, a liability of an~~

~~amount equal to the amount of the advance exists until the taxable event occurs because in the absence of that taxable event the entity will be required to return the advance, or its equivalent value, or to offset the amount against other taxes due from the particular taxpayers.~~

STIPULATIONS

~~40.~~31. An entity analyzes any and all stipulations attaching to an inflow of resources, to determine whether those stipulations impose a ~~condition~~ restriction or a ~~restriction~~condition.

~~Restrictions~~

~~41.~~32. Restrictions are stipulations that do not impose a present obligation on the recipient entity to return the transferred asset or other future economic benefits or service potential~~,~~ to the transferor if the restriction is breached. ~~As noted in paragraph 14, a~~A restriction specifies the purpose for which a transferred asset may be used. The recipient can therefore avoid the outflow of resources by not fulfilling the restriction. An entity in breach of such a restriction will not be obligated to return future economic benefits or service potential to the transferor, and may not have to undertake any action to satisfy the restriction. If an entity breaches a restriction the transferor may apply to a court, or the appropriate administrative or legal authority, to order the recipient entity to comply with the restriction, and entities that breach orders of a court, or appropriate administrative or legal authority, may be subjected to sanctions imposed by the court or administrative or legal authority, which may result in the recognition of a present obligation to pay a fine, however this is a subsequent event, not one that occurs as a result of recognizing the inflow of resources as an asset.

~~Conditions~~

33. Conditions are stipulations that impose a present obligation on the recipient entity to use the future economic benefits or service potential embodied in a transferred asset as specified or return future economic benefits or service potential~~,~~ to the transferor if the condition is breached. Therefore, except in the case of non-depreciable non-monetary assets such as land, an entity which recognizes an asset subject to a condition will also recognize at the same time a liability in respect of that condition. ~~This is because the entity must perform some action resulting in the outflow of future economic benefits or service potential embodied in the transferred asset or return future economic benefits or service potential to the transferor.~~ The present obligation arises as a result of the recognition of the inflow of resources as an asset, and not as a result of some subsequent

event, such as the breach of the condition. It arises because the recipient is unable to avoid the outflow of resources as it is required to either:

(a) 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

(b) return future economic benefits or service potential to the transferor.

34. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by setting off against other assets due to be transferred for other purposes. For example, cash or the value of non-monetary assets that would otherwise be returned to the transferor may be deducted from the amount of a future transfers that the transferee would otherwise have received. This does not undermine the underlying substance of the transfer: that gaining control of the asset also gives rise to a liability.

Recognition of Revenue from Non-Exchange Transactions

~~54.Taxes do not satisfy the definition of "contributions from owners", because the payment of taxes does not give the taxpayers a right to receive distributions of future economic benefits or service potential by the entity during its life or 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.~~

~~71.Transfers do not satisfy the definition of "contributions from owners" because the transfer agreement will not stipulate that the transfer entitles the transferor to distributions of future economic benefits or service potential during the entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up. The transfer agreement will not stipulate that the transferor acquires a financial interest in the entity that can be sold, exchanged, transferred or redeemed. If an agreement did include such stipulations, it would not be a transfer agreement, but an agreement for a contribution from owners.~~

~~74.~~64. ~~As noted in paragraph 40, an~~An entity analyzes all stipulations contained in transfer agreements to determine whether they comprise conditions or restrictions and thus whether~~if~~ it also incurs a liability when it accepts transferred resources.

Substance over Form **[moved from definitions section]**

65. In determining whether stipulations are conditions or restrictions, it is necessary to consider the substance of the stipulations and not merely their form. The mere specification that, for example, a transferred asset must be

consumed in providing goods and services to third parties or returned to the transferor is in itself not sufficient to give rise to a liability when the entity gains control of the asset. When examining the substance of a stipulation, the entity will consider whether the requirement to return the asset, or other future economic benefits or service potential, is enforceable, or would be enforced by the transferor. If the transferor could not enforce a requirement to return future economic benefits or service potential, the stipulation fails to meet the definition of a condition and must 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.

66. 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. To satisfy the definition of a condition, the performance obligation must be one of substance not merely form, and must arise as a consequence of the condition itself. A stipulation that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the stipulation is in substance neither a condition nor a restriction. This is because in these cases, the terms of the transfer itself does not impose on the recipient entity a performance obligation.

Example

Stipulations which specify a return of a transferred asset if the terms of transfer are breached, but do not satisfy the definition of a condition.

- A national government makes a cash transfer to a state government social housing entity with the stipulation that it increases the stock of social housing by an additional 1,000 units, over and above any other planned increases, use the cash transfer in other ways to support its social housing objectives or return the cash to the national government. In this case, the condition is defined 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 the condition; and

- A highly specialized single purpose medical diagnostic equipment is transferred to a medical clinic which undertakes relevant diagnostic activities. The transfer is made subject to the condition that the equipment be used for the purpose specified or returned to the transferor. In this case, the equipment has future economic benefit or service potential to the recipient only for those specific diagnostic purposes, and cannot realistically be used for other purposes. Therefore, the condition itself does not impose a performance objective on the recipient.

67. To satisfy the criteria for recognition as a liability an outflow of resources must be probable and performance against the stipulation must be required and be able to be assessed. Therefore, a stipulation would need to specify such matters as the nature and 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 contributor, particularly where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the stipulation, and the return obligation enforced if significant failures to perform have occurred in the past.

68. 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, or a provincial government provides funds to a local government entity subject the condition that all local residences are connected to the national electricity grid or subject to the condition that capacity in local area public hospitals is provided free of charge to specific groups of citizens. In these cases, a return obligation does not arise until such time as it is expected that the stipulation is breached and a liability is not recognized until the recognition criteria have been satisfied.

Debt Forgiveness and Assumption of Liabilities

~~77.Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction will normally be, in substance, a contribution from owners, as described in paragraphs 31 – 32. This is because the increase in net assets increases the value of the controlling entity's investment in the controlled entity, in substance this is a debt for net assets/equity swap. In other cases where a debt is settled by providing an ownership interest in the debtor entity to the creditor, the~~

~~entity recognizes the transaction as a contribution from owners, not as a transfer.~~

International Public Sector Accounting Standard IPSAS XX

Contributions from Owners

International Public Sector Accounting Standard IPSAS YY

Contributions from Owners

Objective

1. The objective of this Standard is to prescribe the financial reporting of contributions from owners.

Scope

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

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

4. This Standard addresses contributions from owners as distinguished from revenue arising from non-exchange transactions, which is addressed in ED XX, “Revenue from Non-Exchange Transactions”, and revenue arising from exchange transactions, which is addressed in IPSAS 9, “Revenue from Exchange Transactions”.

Government Business Enterprises

5. The *Preface to International Public Sector Accounting Standards* issued by the International Public Sector Accounting Standards Board (IPSASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are profit-oriented entities, accordingly, they are required to comply with IFRSs.

Definitions

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

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

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

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

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

7. Contributions from owners do not meet the definition of revenue. The characteristics identified in paragraph 8 indicate the form that a contribution from owners may take. In determining whether a transaction is a contribution from owners, the substance rather than the form of the transaction is considered. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability or revenue from exchange or non-exchange transactions, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements if material.

8. A contribution from owners may evidenced by any of the following:

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

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

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

9. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction will normally be, in substance, a contribution from owners. This is because the increase in net assets increases the value of the controlling entity's investment in the controlled entity, in substance this is a debt for net assets/equity swap. In other cases where a debt is settled by providing an ownership interest in

the debtor entity to the creditor, the entity recognizes the transaction as a contribution from owners, not as a transfer.

Recognition as an Asset

10. **An inflow of resources from a contribution from owners 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.

11. To recognize assets arising from a contribution from owners all the elements in paragraph 10 must be met. To meet the definition of an asset requires that the entity obtain control of resources as a result of a past event. In addition it must be probable that the future economic benefits or service potential will flow to the entity, and that the fair value of the asset can be measured reliably.

CONTROL OF AN ASSET

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

13. An announcement of an intention to contribute resources to a public sector entity is not of itself sufficient to identify resources as controlled. In circumstances where an appropriation is required before an inflow occurs, an entity will not identify resources as controlled until such time as the appropriation is made because the entity cannot exclude or regulate the access of the government to the resources. In many instances, the entity will need to establish legal enforceability of its control of resources before it can recognize an asset. If an entity does not have a legally enforceable claim to resources, it cannot regulate the lawful owner's access to those resources.

PAST EVENT

14. Public sector entities normally obtain assets from governments, other entities or taxpayers, or by purchasing or producing them. Therefore the past event which gives rise to control of an asset may be a purchase, a taxable event, a contribution from owners, 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, as an owner, to make a

contribution is not a past event that meets the definition of an asset for the potential recipient.

PROBABLE INFLOW OF RESOURCES

15. 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 government appropriates funds to a public sector entity (reporting entity), and the government has a history of transferring appropriated resources, it is probable that the inflow will occur, notwithstanding that the appropriated funds have not been transferred at reporting date.

MEASUREMENT ON INITIAL RECOGNITION

16. Assets are measured in accordance with the appropriate IPSAS or accounting policy. For example, an inflow of property, plant or equipment is measured in accordance with IPSAS 17, “Property, Plant and Equipment” and an inflow of investment property is recognized in accordance with IPSAS 16, “Investment Property.” IPSASs 16 and 17 require assets acquired through a non-exchange transaction, that is for no cost or for a nominal cost, to initially be measured at their fair value at the date of acquisition. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates, and Errors” in paragraphs 12 – 15 establishes requirements for the selection of accounting policies in the absence of a relevant IPSAS.

CONTINGENT ASSETS

17. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes to the general purpose financial statements as a contingent asset (see IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”, paragraphs 39 – 43).

Recognition as a Contribution from Owners

18. An inflow of resources that is designated as a contribution from owners should be evaluated to determine whether the inflow is in fact to subsidize operations, in which case it would be recognized as revenue in accordance with ED XX, “Revenue from Non-Exchange Transactions”. An inflow is more likely to be a contribution from an owner if there is evidence it is an investment that is intended to result in future revenue sufficient to maintain the owner's equity, without ongoing subsidies from the owner.

19. The contribution may be in the form of cash or other assets, or a settlement or cancellation of liabilities. Such contributions typically increase the recipient entity's capacity to provide goods and services, such as on startup or major expansion, or make it self-sufficient, as in the case of financial restructuring.

20. **An inflow of resources that meets the definition of an asset shall be recognized as a contribution from owners when and only when:**

    (a) There is evidence that the inflow is an investment that is intended to result in future revenue sufficient to maintain the owner's equity, without ongoing subsidies from the owner;

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

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

Disclosure

21. **An entity shall disclose:**

    (a) **The accounting policies adopted for the recognition of contributions from owners;**

    (b) **The amount of contributions from owners recognized during the period.**

Effective Date

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

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

Implementation Guidance

Contribution from Owners — Example

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

IG1. 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 legally 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, which the entity recognized as a contribution from owners. 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.

IG2. When the amendment to the charter becomes legally 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.

Basis for Conclusions

BC1. This basis for conclusions gives the IPSASB's reasons for supporting or rejecting certain solutions related to the accounting for contributions from owners. This Basis for Conclusions does not form part of the Standard.

BC2. In 2002, the IPSASB (formerly the Public Sector Committee) initiated a project to develop an IPSAS that would establish requirements for the recognition and measurement of revenue from non-exchange transactions (including taxes and transfers). The IPSASB decided to enlist the assistance of a Steering Committee (SC) to develop initially an Invitation to Comment (ITC) which would analyse the issues related to revenue from non-exchange transactions and propose some initial solutions. The SC was composed of public sector financial reporting experts from a variety of countries and was chaired by an IPSASB member. The SC met four times and prepared an ITC which was published in January 2004, with comments requested by June 30, 2004. That ITC also addressed issues related to the accounting for contributions from owners. In November 2004, the IPSASB analysed those comments and began drafting an Exposure Draft (ED) of an IPSAS that dealt with revenue from non-exchange transactions as well as contributions from owners. In November 2005, the IPSASB agreed to issue an ED on contributions from owners separately from the ED for revenue from non-exchange transactions as contributions from owners do not give rise to revenue. The IPSASB is of the view that the IPSAS that is developed from this project will enable governments and other public sector entities to appropriately recognize and measure contributions from owners, thereby serving the public interest by improving public sector financial reporting and making public sector operations more transparent and accountable.

BC3. This Exposure Draft (ED) is based on an assets and liabilities approach, which has been applied consistently.

BC4. Many public sector entities receive inflows of resources from the entities that control them, own them or are members of them. In certain circumstances the inflow of resources will be designated as a "contribution from owners".

BC5. The IPSASB is of the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification. A company that issues shares, whether in the public or private sector, will evidence a contribution from owners by issuing additional shares in respect of the contribution. Non-GBE public sector entities are not normally established as companies, and do not normally issue equity instruments, therefore the IPSASB has identified examples of some types of documentation that may evidence contributions from owners in the public sector. In addition to this documentation, there must be evidence that the inflow of resources designated as a contribution from owners is not, in substance, a subsidization of operations, but is in fact an investment that is intended to result in future revenue sufficient to maintain the owner's equity, without ongoing subsidies from the owner.

(d) Require recognition of assets subject to transfer when the resources are transferred or when the reporting entity has a legally enforceable claim to the resources (paragraphs 25– 26 and paragraph 71). The ED notes that before a claim is legally enforceable, it does not meet the definition of "control of an asset" because the entity cannot exclude or regulate the access of the transferor to the asset. **[MATTHEW: We are not sure about the reference to "legally enforceable". This would effectively change the definition of an asset and it also seems inconsistent with question (i) below which requires entities to recognize a liability prior to the transfer agreement becoming legally binding]**

(p) Provide entities a five year period in which to conform their accounting policies in respect of taxation revenue to the requirements of this Standard. (paragraphs 95– 101). [WE DO NOT BELIEVE A 5-YEAR TRANSITION IS REQUIRED. THE ED ONLY REQUIRES THAT A GOVERNMENT RECOGNISE INFLOWS OF RESOURCES FROM NON-EXCHANGE TRANSACTIONS ONLY IF THEY CAN BE RELIABLY MEASURED. HENCE IF THEY CAN NOT BE RELIABLY MEASURED THEY CAN NOT BE RECOGNISED. THEREFORE IS A TRANSITION NECESSARY?].

(q) Restrict the transitional provisions to taxation revenue (paragraphs 95– 101). [suggest that this question be combined with question (p)]

International Public Sector Accounting Standard IPSAS XX

Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)

Conditions

12. As noted above, a condition requires that the entity either consume the future economic benefits or service potential of the asset as specified or return the asset, or other future economic benefits or service potential, in the event that the condition is breached. Therefore, except in the case of non-depreciable non-monetary assets such as land, 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. **[Matthew: We are not convinced that conditions can not attach to non-depreciable assets. Conceptually it is not clear to us why an asset has to be "consumed" before a liability (condition) can be recognised. For example, land may be donated provided it is used for a specific purpose (performance obligation) and if not then returned (return obligation). If this is to be retained then we suggest that a specific question be included].** 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.

Example

Stipulations which specify a return of a transferred asset if the terms of transfer are breached, but do not satisfy the definition of a condition.

- A national government makes a cash transfer to a state government social housing entity with the stipulation that it increases the stock of social housing by an additional 1,000 units, over and above any other planned increases, use the cash transfer in other ways to support its social housing objectives or return the cash to the national government. In this case, the stipulation~~condition~~ is defined 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 the stipulation~~condition~~; and

- A highly specialized single purpose medical diagnostic equipment is transferred to a medical clinic which undertakes relevant diagnostic activities. The transfer is made subject to the stipulation~~condition~~ that the equipment be used for the purpose specified or returned to the transferor. In this case, the equipment has future economic benefit or service potential to the recipient only for those specific diagnostic purposes, and cannot realistically be used for other purposes. Therefore, the stipulation~~condition~~ itself does not impose a performance objective on the recipient.

18. 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, or a provincial government provides funds to a local government entity subject the stipulation~~condition~~ that all local residences are connected to the national electricity grid or subject to the stipulation~~condition~~ that capacity in local area public hospitals is provided free of charge to specific groups of citizens. In these cases, a return obligation does not arise until such time as it is expected that the stipulation is breached and a liability is not recognized until the recognition criteria have been satisfied.

26. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled. For example, if a public school were destroyed by a forest fire and the national government announced its intention to appropriate funds to rebuild the school, the school would not recognize an inflow of resources until the appropriation is made. In circumstances where an appropriation is required before an inflow occurs, an entity will not identify resources as controlled until such time as the appropriation is made because the entity cannot exclude or regulate the access of the government to the resources. In many instances, the entity will need to establish legal enforceability of its control of resources before it can recognize an asset. ~~If an entity does not have a legally enforceable claim to resources, it cannot regulate the lawful owner's access to those resources.~~**[WE SUGGEST THAT THE LAST SENTENCE BE DELETED. WE PREFER THE SENTENCE STARTING "IN MANY" AS IT LEAVES ROOM FOR JUDGEMENT. AS PER OUR EARLIER COMMENTS WE ARE NOT SURE THAT LEGAL ENFORCEABILTY IS ALWAYS NECESSARY FOR CONTROL TO EXIST.**

Contributions from Owners

31. ~~Contributions from owners are excluded from the definition of revenue.~~ In determining whether a transaction is a contribution from owners, the substance rather than the form of the transaction is considered. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity which represents an increase in net assets/equity, other than increases relating to contributions from owners. The characteristics identified in paragraph 32 indicate the form that a contribution from owners may take. ~~In determining whether a transaction is a contribution from owners, the substance rather than the form of the transaction is considered.~~ 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.

32. A contribution from owners may be evidenced by any of the following:

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

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

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

Measurement of Liabilities on Initial Recognition

44. Liabilities are measured in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" or the appropriate accounting policy. IPSAS 19 requires provisions to be measured at the best estimate of the amount~~expenditure~~ required to settle the present obligation at the reporting date. The estimate takes account of the risks and uncertainties that surround the events causing the provision. Where the time value of money is material IPSAS 19 requires that the liability be measured at the present value of the amount~~expenditures~~ expected to be required to settle the obligation. IPSAS 3, "Accounting Policies, Changes in Accounting Estimates, and Errors" in paragraphs 12 – 15 establishes requirements for the selection of accounting policies in the absence of a relevant IPSAS.

Recognition of Revenue from Non-Exchange Transactions

45. **An inflow of resources recognized as an asset shall be recognized as revenue, except to the extent that a liability or a contribution from owners is also recognized.**

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

47. When an entity recognizes an increase in net assets as a result of a non-exchange transaction, it recognizes revenue other than increases relating to contributions from owners. If it has recognized a liability in respect of the inflow, when the liability is reduced, because the taxable event occurs, or a condition is satisfied, it reduces the liability and recognizes revenue.

48. When the conditions relating to a transfer are satisfied, the liability recognized is reduced and revenue is recognized. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognized as goods are provided. Further, if the condition specifies that a future event must occur, such as the establishment of a school, when that event occurs, the condition is satisfied, the liability is no longer recognized and revenue recognized.

Measurement of Revenue from Non-Exchange Transactions

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

50. When, as a result of a non-exchange transaction, an entity recognizes an asset, it also recognizes revenue, unless it is also required to recognize a liability or a contribution from owners. If it recognizes a liability in respect of conditions relating to the receipt of the asset, it subsequently recognizes revenue when the carrying amount of the liability is reduced.

Taxes

57. As noted in paragraph 38, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any~~these~~ conditions arising, then 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 as the specific purposes amount to restrictions not conditions.

Taxes Received in Advance

59. Consistent with the definition of an asset and with paragraph 51, receipts for taxes received in advance of the taxable event are recognized as an asset and a liability because the past event that gives rise to the entity's control of the asset has not occurred, notwithstanding that the entity has already received an inflow of resources. If the taxable event does not subsequently occur, the government has an obligation to refund the taxes paid or offset such taxes in advance against other taxes due from the taxpayer. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognized until ~~revenue accrues to the government, which is when~~ the taxable event occurs. When the taxable event occurs the liability is discharged and revenue is recognized.

Implementation Guidance

Example 22: Stipulation~~Condition~~ not Requiring Recognition of a Liability

IG52. National Park Department (reporting entity) of Country A receives a grant of CU500,000 from the bilateral aid agency of Country B. The grant stipulates that the grant must be used to rehabilitate deforested areas of Country A's wilderness, if the money is not used for the stated purpose, it must be returned to Country B. The terms of the grant 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 Deparment 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 stipulation~~condition~~.

IG53. National Park Department analyzes the transaction and concludes that although the terms of the grant are legally 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 at bank) and grant revenue; it does not recognize a liability.

Basis for Conclusions

[MATTHEW: WE SUGGEST THAT THE STRUCTURE OF THE BASIS BE REVIEWED AND AMENDED TO MORE CLOSLEY FOLLOW THE STRUCTURE OF THE ED]

Definitions

~~A condition~~Conditions on ~~a~~ ~~non-exchange transaction~~transferred assets ~~is a~~are stipulations that specifies that the future economic benefits or service potential embodied in the ~~transferred~~ assets~~s~~ is required to~~must~~ be consumed by the recipient as specified or future economic benefits or service potential is required to~~must~~ be returned to the transferor~~ if not deployed as specified or if a specified future event occurs or does not occur~~.

Comment [MSOffice1]: Very minor point, but if shall means must then we shouldn't use must.

Restrictions

14. Restrictions do not include a requirement that the transferred asset, or other future economic benefits or service potential, is required to~~must~~ be returned to the transferor in the event of a breach. 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. The recipient can therefore avoid the outflow of resources by not fulfilling the restriction. Where a recipient is in breach of a restriction, the transferor will have the option of seeking a penalty against the recipient, by for example, taking the matter to a court or other tribunal, through an administrative process, such as a directive from a government minister or other authority, or otherwise.

Comment [MSOffice2]: The same avenues that would be pursued with an exchange transaction.

Substance over Form

15. In determining whether stipulations are conditions or restrictions, it is necessary to consider the substance of the stipulations and not merely their form. The mere specification that, for example, a transferred asset is required to~~must~~ be consumed in providing goods and services to third parties or returned to the transferor is in itself not sufficient to give rise to a liability when the entity gains control of the asset. When examining the substance of a stipulation, the entity will consider whether the requirement to return the asset, or other future economic benefits or service potential, is enforceable, or would be enforced by the transferor. If the transferor could not enforce a requirement to return future economic benefits or service potential, the stipulation fails to meet the definition of a condition and shall~~must~~ 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.

16. 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. To satisfy the definition of a condition, the performance obligation shall~~must~~ be one of substance not merely form, and is required~~must~~ arise as a consequence of the condition itself. A stipulation that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the stipulation is in substance neither a condition nor a restriction. This is because in these cases, the terms of the transfer itself does not impose on the recipient entity a performance obligation.

Examples

Stipulations which specify a return of a transferred asset if the terms of transfer are breached, but do not satisfy the definition of a condition.

- A national government makes a cash transfer to a state government social housing entity with the stipulation that it increases the stock of social housing by an additional 1,000 units, over and above any other planned increases, use the cash transfer in other ways to support its social housing objectives or return the cash to the national government. In this case, the condition is defined 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 the condition; and
- A highly specialized single purpose medical diagnostic equipment is transferred to a medical clinic which undertakes relevant diagnostic activities. The transfer is made subject to the condition that the equipment be used for the purpose specified or returned to the transferor. In this case, the equipment has future economic benefit or service potential to the recipient only for those specific diagnostic purposes, and cannot realistically be used for other purposes. Therefore, the condition itself does not impose a performance objective on the recipient.

17. To satisfy the criteria for recognition as a liability an outflow of resources shall~~must~~ be probable and performance against the stipulation shall~~must~~ be required and be able to be assessed. Therefore, a stipulation would need to specify such matters as the nature or~~and~~ 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 contributor,

Comment [MSOffice3]: The problem with this example is that a housing entity's responsibilities are normally much broader than creating housing units. Therefore, it does impose a performance obligation. I believe a better example would be Shared revenue where the use is limited to "any general government purpose." In other words, it can't be use for GBEs, but can for anything else

Comment [MSOffice4]: As noted in New York, I do not see how this condition is not substantive. Isn't the idea behind a condition to limit the use of a asset. If there is no condition, they could just sell it and use the proceeds for another purpose. If I give you XXX currency units, with the condition that it will be used for a specific purpose, how does it substantively differ form this example. We just cut out cash. The bottom line is that this example appears to be base on the form of the condition and not the substance.

Comment [MSOffice5]: Again, as I mentioned at the New York meeting, I believe that as written the example is too restrictive. The "or" is more real life.

Comment [MSOffice6]: See comment on the medical equipment example from above. I think that this is a more appropriate example of the proper application of the proposal.

particularly where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the stipulation, and the return obligation enforced if significant failures to perform have occurred in the past.

19. However, recipients will need to consider whether these transfers are in the nature of a prepayment and would give rise to an asset and a present obligation where there is an obligation to return the amounts paid if the event does not occur. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with IPSAS 9 "Revenue from Exchange Transactions".

Comment [MSOffice7]: Something is missing here. Without an example, it appears to be introduction an additional criteria or consideration (beyond the presence of a substantive condition, or is it just another way of saying substantive condition. If we say it too many different ways it may confuse people.

Control of an Asset

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

Comment [MSOffice8]: Regulatory roles have little or nothing to do with nonexchange, I believe that discussion is better left for a concept statement. We shouldn't try to answer all the control issues here.

26. An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled. For example, if a public school were destroyed by a forest fire and the national government announced its intention to appropriate funds to rebuild the school, the school would not recognize an inflow of resources until the appropriation is made. In circumstances where an appropriation is required before an inflow occurs, an entity will not identify resources as controlled until such time as the appropriation is made because the entity cannot exclude or regulate the access of the government to the resources. In many instances, the entity will need to establish legal enforceability of its control of resources before it can recognize an asset. If an entity does not have a legally enforceable claim to resources, it cannot regulate the lawful owner's access to those resources.

Comment [MSOffice9]: In many cases the government would not control the asset until a grant agreement was signed and a qualifying expenditure was incurred. I think you attempted to make this point with the additional commentary in this paragraph.

Probable Inflow of Resources

28. 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

[1] The flowchart is illustrative only, it does not take the place of the standards. It is provided as an aid to interpreting the IPSAS.

taxpayer or transferor. For example, where a government appropriates funds to a public sector entity (reporting entity), and the government has a history of transferring appropriated resources, it is probable that the inflow will occur, notwithstanding that the appropriated funds have not been transferred at reporting date.

Comment [MSOffice10]: We may have a conflict between a legally enforceable claim and this probability notion.

Measurement ~~of Assets~~on Initial Recognition

29. Assets are measured in accordance with the appropriate IPSAS or accounting policy. For example, an inflow of property, plant or equipment is measured in accordance with IPSAS 17, "Property, Plant and Equipment" and an inflow of investment property is recognized in accordance with IPSAS 16, "Investment Property." IPSASs 16 and 17 require assets acquired through a non-exchange transaction, that is for no cost or for a nominal cost, to initially be measured at their fair value at the date of acquisition. IPSAS 3, "Accounting Policies, Changes in Accounting Estimates, and Errors" in paragraphs 12 – 15 establishes requirements for the selection of accounting policies in the absence of a relevant IPSAS.

Contingent Assets

Comment [MSOffice11]: I believe that a lot of the "probable" cases in paragraph 28 should fall into this category when there is no legally enforcement claim as of the date of the financial statements.

30. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes to the general purpose financial statements as a contingent asset (see IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets", paragraphs 39 – 43).

Non-Exchange Transactions

35. There are a further group of non-exchange transactions where the entity provides some consideration that does not approximate the fair value of the resources received. In these transactions the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately.

Comment [MSOffice12]: We should consider some practical guidance here. Otherwise, every grant will need to be pulled apart. In the end, the transactions recognition is not all that different. Besides, isn't the final goal to have one standard for both?

Taxes

51. **Taxes shall give rise to an asset when the taxable event occurs.**

52. ~~Taxes are the major source of revenue for many governments and public sector entities. Taxes are generally defined in paragraph 6 as economic benefits received or receivable by public sector entities, in accordance with legislation or other laws established to provide revenue to the government, but excluding fines or other penalties imposed for breaches of the law. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although~~

~~they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.~~ 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 (if the taxation agency deposits money in a bank account it controls, it recognizes an asset and a liability). 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 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, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes (the taxation agency may recognize assets and liabilities if it controls the bank account into which tax payments are initially deposited).

Gifts and Donations

86. Gifts and donations are recognized as assets and revenue when it is probable that the future economic benefits 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. The fair value of assets is usually their market value, determined 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.

Comment [MSOffice13]: This should also be based on a legally enforceable claim. With this clarification, all nonexchange revenue will start from the same based—a principle-based approach. Otherwise, they would be reporting pledges which as you know conflicts with the guidance below.

Bequests

87. 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 is the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.

88. Bequests are recognized as assets and revenue when it is probable that the future economic benefits will flow to the entity and the fair value of the assets can be measured reliably. Determining the probability of the inflow may be problematic if a period of time elapses between the death of the testator and the entity receiving the 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. The fair value of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph 86. 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.

Comment [MSOffice14]: See previous comment.

Example 20: Revenue of Aid Agency

Comment [MSOffice15]: Why are we including this example? It's not likely to occur. I don't remember anyone ask for this.

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. Any funds not used at the end of the year are required to~~must~~ be refunded. Green-Aid Agency's financial year begins on January 1. The budget is approved in the preceding October, and the invoices are mailed out ten days after the budget is approved. Some governments pay before the start of the financial year. On past experience, some governments are very unlikely to pay what they owe.

In-kind Goods Recognized as Revenue

IG45. Donor 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 variability in Government A's past performance in meeting its commitments, Aid Agency Inc. waits to recognize revenue until actual 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 tonnes of rice to Aid Agency Inc. on 12 January 20X5. The transfer of the rice takes place in one of the ports of the donor 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~~ne~~, with the result that the transfer of 1,000 ton~~ne~~s 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

Comment [MSOffice16]: US English.

distribution agencies in Nations B and C in order to meet the needs of starving people.

Example 22: Condition not Requiring Recognition of a Liability

Comment [MSOffice17]: Discussed this in New York. If a stipulation is not a condition in substance, the you should not refer to it as a condition..

IG52. National Park Department (reporting entity) of Country A receives a grant of CU500,000 from the bilateral aid agency of Country B. The grant stipulates that the grant is required~~must~~ be used to rehabilitate deforested areas of Country A's wilderness, if the money is not used for the stated purpose, it must be returned to Country B. The terms of the grant 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 Deparment 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 condition.