

Draft ED Income from Non-exchange Transactions will be considered by the Board at its meeting on 22 April 2009. Please note that the draft ED does not reflect settled positions by the AASB and may change or be modified by the AASB. This draft is not an authoritative pronouncement of the AASB. Decisions become final only after completion of the formal processes required to issue an AASB. No responsibility is taken for the results of actions or omission to act taken on the basis of any information in this draft or for any errors or omissions.

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AASB 10XX INCOME FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)**

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[Draft] Australian Accounting Standard AASB 10XX *Income from Non-exchange Transactions (Taxes and Transfers)* is set out in paragraphs 1 – 117. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Private sector for-profit entities complying with Australian Accounting Standards will simultaneously comply with IFRSs. Many other entities complying with Australian Accounting Standards will also simultaneously comply with IFRSs.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Australian Accounting Standards.

Reasons for Issuing this Exposure Draft

This Exposure Draft proposes requirements for the recognition and initial measurement of income from non-exchange transactions by not-for-profit entities in the private sector or the public sector. Income from non-exchange transactions, such as grants, donations, bequests, appropriations and taxes, often dominates the income streams of not-for-profit entities. Despite the significance of income from non-exchange transactions for many not-for-profit entities, AASB 1004 *Contributions* does not comprehensively address the recognition and measurement issues associated with income from non-exchange transactions. As a result, variations in practice have developed.

The Australian Accounting Standards Board has developed this Exposure Draft in conjunction with the Financial Reporting Standards Board in New Zealand, with the intention of issuing common Standards as far as possible. In Australia, the resulting Standard would supersede AASB 1004. New Zealand does not currently have a Standard addressing non-exchange transactions for public benefit entities.

Main Features of this Exposure Draft

The Boards have based the proposed Standards on International Public Sector Accounting Standard IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, issued by the International Public Sector Accounting Standards Board. The New Zealand Exposure Draft ED 116 is available on the website of the New Zealand Institute of Chartered Accountants (www.nzica.com).

Scope

The proposals in this Exposure Draft are applicable to not-for-profit entities in the private sector or the public sector. This contrasts with the scope of AASB 1004, which also applies to for-profit government departments.

Recognition Requirements

The proposed Standard (AASB 10XX) presented in the Exposure Draft would require entities to analyse inflows of resources from non-exchange transactions to determine whether they meet the definition of an asset and the criteria for recognition as an asset. If so, entities would then be required to determine whether a liability is also required to be recognised. Income from non-exchange transactions would then be recognised as the difference between the asset and liability recognised.

The proposals distinguish advance receipts from other liabilities. Advance receipts are resources received under a non-exchange transaction prior to the transfer arrangement becoming binding or the taxable event occurring. These would be recognised as liabilities.

Entities would need to determine whether there are any conditions on transferred assets, to be recognised as liabilities once any advance-receipt period has passed. Conditions on transferred assets are defined in the proposed Standard as stipulations that specify that the future economic benefits embodied in the transferred asset are required to be consumed by the recipient as specified, or else future economic benefits must be returned to the transferor.

The proposed Standard permits, but does not require, the recognition of services in-kind.

Measurement Requirements

The proposed Standard specifies the initial measurement of assets at fair value, with the initial measurement of liabilities at the best estimate of the amount required to settle the obligation (or the amount received, in respect of advance receipts).

These proposed requirements are subject to the measurement requirements for financial assets and financial liabilities in AASB 139 *Financial Instruments: Recognition and Measurement*.

Transitional Provisions

The transitional provisions in the proposed Standard propose prospective application from the start of the earliest comparative period presented in the first financial statements to which the resulting Standard applies, with retrospective application permitted.

Contributions from Owners

The proposed Standard addresses contributions from owners only in terms of distinguishing such transactions from non-exchange transactions that give rise to liabilities and/or income. The proposed Standard does not include recognition requirements for contributions from and distributions to owners.

The AASB proposes to retain the requirements for restructures of administrative arrangements currently in AASB 1004. These are applicable to local governments, government departments, general government sectors and whole of governments. The requirements are not included in the proposed Standard since their ultimate placement will be determined through the due process.

Comparison with IPSAS 23 and NZ ED 116

There are no significant differences between the proposed Standard and IPSAS 23 or the proposed New Zealand Standard. Both the AASB and the FRSB agreed to propose adopting the requirements of IPSAS 23, making the minimum changes required to facilitate application of the resulting Standard in each jurisdiction. Decisions made by the Boards in giving effect to this approach are discussed in the Basis for Conclusions to the proposed Standard. The IPSASB's Basis for Conclusions on IPSAS 23 is also provided.

Implications of the Proposals

Timing of Income/Liability Recognition

AASB 1004 (paragraph 12) presently requires the recognition of income arising from the contribution of an asset to an entity under a non-reciprocal transfer (called a "non-exchange transaction" in this proposed Standard) when the entity controls the contribution, it is probable that the economic benefits will flow to the entity, and the amount can be reliably measured. The implication of this approach is that a liability would be recognised by an entity for conditional contributions only when the entity failed to meet the conditions for the retention of the contribution and the contribution had to be repaid or returned.

However, under this proposed Standard, conditions on a transferred asset give rise to a present obligation and result in the initial recognition of a liability, with income recognised at that time only to the extent (if any) that the asset recognised exceeds the liability. A stipulation that transferred assets should be utilised over a stated

period (such as the next financial year) is not a condition as defined. Such time requirements would represent only a restriction on transferred assets.

Therefore, for non-exchange transactions that include conditions on the transferred assets, this proposed Standard delays the recognition of income until the obligations are satisfied, in contrast to AASB 1004. This change reflects a different view of the nature of the obligations underlying conditions on transferred assets. However, the specification of a time basis for non-exchange transactions such as grants is not sufficient for the deferral of income and the recognition of a liability instead.

Contributions of Services In-kind

AASB 1004 (paragraph 44) requires local governments, government departments, general government sectors and whole of governments to recognise contributions of services as income when the fair value of those services can be reliably determined and the services would have been purchased if they had not been donated. The proposed Standard permits entities to recognise services in-kind, on a class-by-class basis, but does not require them to be recognised. This would result in a consistent approach to the recognition of contributions of services for all not-for-profit entities, since the proposed Standard does not specify any characteristics of services for which recognition may be most appropriate, following the approach in IPSAS 23.

Entities presently recognising contributions of services would be able to continue that accounting policy, if desired.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by ... [date]. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following aspects:

- (a) the exclusion of for-profit government departments from the scope of the proposed Standard – are requirements for such entities still required?;
- (b) the definition and treatment of conditions on transferred assets;
- (c) the treatment of advance receipts;
- (d) whether further guidance or illustrative examples are required, e.g. for parliamentary appropriations and local government rates;
- (e) permitting, but not requiring, the recognition of contributions of services;
- (f) the measurement requirements;
- (g) prospective application per the transitional provisions;
- (h) the retention of requirements for restructures of administrative arrangements and whether recognition requirements are needed in respect of contributions from owners and distributions to owners;
- (i) the retention/removal/transfer of Interpretation 1038 [in whole or in part] ...;

The proposals re Interpretation 1038 are still to be determined.

- (j) whether, overall, the proposals would result in financial statements that would be useful to users; and
- (k) whether the proposals are in the best interest of the Australian economy.

[DRAFT] ACCOUNTING STANDARD AASB 10XX
INCOME FROM NON-EXCHANGE TRANSACTIONS
(TAXES AND TRANSFERS)

Objective

- 1 The objective of this Standard is to prescribe requirements for the financial reporting by private and public sector not-for-profit entities of income arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The Standard deals with issues that need to be considered in recognising and measuring income from non-exchange transactions including the identification of contributions from owners.

NZ	1	The objective of this Standard is to prescribe requirements for the financial reporting by <u>public benefit entities</u> of income arising from non-exchange transactions, ...
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Application

- 2 This Standard applies to:
- (a) each not-for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
 - (b) general purpose financial statements of each other not-for-profit entity that is a reporting entity; and
 - (c) financial statements of not-for-profit entities that are, or are held out to be, general purpose financial statements.
- 3 This Standard applies to annual reporting periods beginning on or after ... [date].
- 4 This Standard may be applied to annual reporting periods beginning on or after ... [date] but before ... [date]. If an entity applies this Standard to such an annual reporting period, it shall disclose that fact.
- 5 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- 6 When applicable, this Standard supersedes AASB 1004 *Contributions* (December 2007) in part.

Scope

NZ	2	Public benefit entities that are reporting in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) shall apply the requirements of this Standard in accounting for income from non-exchange transactions.
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- 7 This Standard addresses income arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in AASB 118 *Revenue*. ~~While income received by not for profit entities arises from both exchange and non-exchange transactions, the majority of income of not for profit entities is typically derived from non-exchange transactions such as:~~ Income from non-exchange transactions comprises:
- (a) taxes; and
 - (b) transfers (whether cash or non-cash), including grants, parliamentary appropriations, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind.

FRSB, 4/09 – to consider the addition of “parliamentary appropriations”.

NZ staff memo notes that appropriations may be required for a number of the items in (b) and that some NZ appropriations may be income from exchange transactions. Therefore, NZ staff prefer not to include the reference, but conclude that the reference is not likely to cause problems.

AASB staff comment – some redundancy is fine; appropriations not viewed as exchange transactions in Australia. The reference should be retained.

7A This Standard does not address income arising from non-exchange transactions that relates to:

- (a) the disposal of financial assets or financial liabilities (see AASB 139 *Financial Instruments: Recognition and Measurement*); and
- (b) business combinations.

Issue, 4/09 – Is a scope exclusion paragraph required? Paragraph 1 already refers to a scope exclusion re entity combinations, but if other exclusions are to be explicitly stated, it should be repeated here: thus paragraph (b). The paragraph numbering 7A is merely to save renumbering the whole of the ED at this stage. If retained, the paragraph will become 8.

The NZ staff propose the following paragraph here (as para 4 in the NZ draft ED):

“This Standard does not deal with income arising from non-exchange transactions that relates to:

- (a) lease agreements (see NZ IAS 17 *Leases*);
- (b) insurance contracts within the scope of NZ IFRS 4 *Insurance Contracts*;
- (c) the recognition or disposal of financial assets and financial liabilities (see NZ IAS 39 *Financial Instruments: Recognition and Measurement*); and
- (d) business combinations (see NZ IFRS 3 *Business Combinations*).”

AASB staff consider that (a) and (b) are not required, because dividing a transaction into exchange and non-exchange components should allow the leasing Standard and the insurance Standards (AASB 4, 1023 and 1038) to apply as normal to the exchange transaction (see para 42). If those are included as exceptions, are there other transactions for which the division could be difficult that ought to be listed as well? Where would the list stop?

The linkage to the financial instruments Standard AASB 139 is awkward. The NZ staff propose an exclusion re “recognition and disposal” whereas the AASB staff proposal in para 7A is to exclude just “disposal”. The ED’s requirements for income recognition should apply whether or not the liabilities to be recognised under conditions on transferred assets (for example) are financial or non-financial. It is too risky to exclude the recognition case. Is the disposal case exclusion warranted?

The measurement of financial assets and liabilities under AASB 139 is a separate issue, requiring other amendments to this ED to exclude the application of the ED’s measurement principles – unless the Boards conclude that the non-exchange transaction requirements should take precedence. Refer to Issues Paper – Financial Instruments (agenda paper 5.3).

Definitions

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

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

NZ FRSB, 2/09 – added a footnote to the reference to future economic benefits (the first occurrence in the document) to state that: “Paragraph NZ55.1 of the NZ *Framework* states that the term economic benefits is to be read as having the same meaning as the term service potential.”

AASB, 3/09 – confirmed no reference in Aust ED to ‘service potential’, so no footnote here even if the FRSB retains one.

***Contributions from owners* are future economic benefits that have 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 equity of the entity which:**

- (a) conveys entitlement both to distributions of future economic benefits 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 economic benefits received or receivable by not-for-profit entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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.

A ***not-for-profit entity*** is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls

NZ ***Public benefit entities*** are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. [instead of “not-for-profit entity” definition]

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 are required to be returned to the transferor if not deployed as specified.

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

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

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

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

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

Non-exchange Transactions

- 9 In some transactions it is clear that there is an exchange of approximately equal value. These are exchange transactions and are addressed in other Australian Accounting Standards.
- 10 In other transactions an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions and are addressed in this Standard. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. Whilst the taxing government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.
- 11 There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognised separately.
- 12 There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidised price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-

exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

Income

- 13 Income comprises gross inflows of economic benefits received and receivable by the reporting entity, which represents an increase in 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 equity or income of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.
- 14 Where an entity incurs some cost in relation to income arising from a non-exchange transaction, the income is the gross inflow of future economic benefits, and any outflow of resources is recognised as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognised separately from income arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognised as an asset, in accordance with AASB 116 *Property, Plant and Equipment*.

Stipulations

- 15 Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations as defined in this Standard. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls.
- 16 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 embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits be returned to the transferor in the event that the stipulation is breached (return obligation).
- 17 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. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* establishes requirements for the recognition and measurement of constructive obligations.

Conditions on Transferred Assets

- 18 Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits of the asset as specified or return future economic benefits to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits 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 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. Therefore, when a recipient initially recognises an asset that is subject to a condition, the recipient also incurs a liability.
- 19 As an administrative convenience, a transferred asset, or other future economic benefits, 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 recognise the gross amounts in its financial statements, that is, the entity will recognise 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 income for the new transfer.

Restrictions on Transferred Assets

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

- 21 In determining whether a stipulation is a condition or a restriction it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.
- 22 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 is enforceable and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits, 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 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, 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.
- 23 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 embedded in the transferred asset as specified, or return the asset or other future economic benefits to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.
- 24 To satisfy the criteria for recognition as a liability it is necessary that an outflow of resources will be probable and performance against the condition is required and is able to be assessed. Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly so where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition, and the return obligation has been enforced if significant failures to perform have occurred in the past.
- 25 In some cases, an asset may be transferred subject to the stipulation that it be returned to the transferor if a specified future event does not occur. This may occur where, for example, a national government provides funds to a provincial government entity subject to the stipulation that the entity raise a matching contribution. In these cases, a return obligation does not arise until such time as it is expected that the stipulation will be breached and a liability is not recognised until the recognition criteria have been satisfied.
- 26 However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this Standard “advance receipt” refers to resources received prior to a taxable event or a transfer arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with AASB 118.

Taxes

- 27 Taxes are the major source of income for many governments and other 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 income to the government, excluding fines or other penalties imposed for breaches of laws or regulation. Non-compulsory transfers to the government or not-for-profit 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.
- 28 Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations 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,

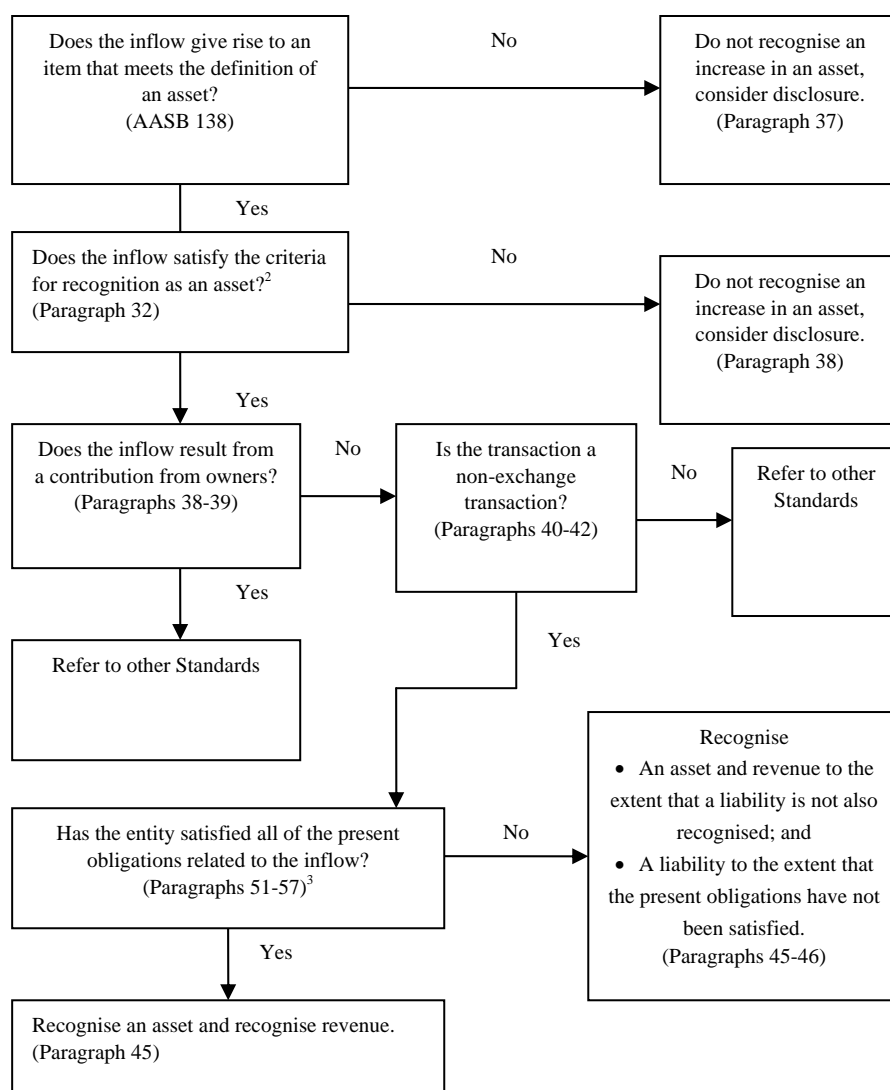
procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, 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.

- 29 Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

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

- 30 An entity will recognise an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognise as a liability. Contributions from owners do not give rise to income, so each type of transaction is analysed and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyse non-exchange transactions to determine which elements of general purpose financial statements will be recognised 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 income arises.¹ This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 31-116.

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

Illustration of the Initial Analysis of Inflows of Resources¹

1. The flowchart is illustrative only, it does not take the place of the Standards. It is provided as an aid to interpreting the Standard.
2. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset the entity decreases the carrying amount of the liability.
3. In determining whether the entity has satisfied all of the present obligations, the application of the definition of “conditions on a transferred asset,” and the criteria for recognising a liability are considered.

Recognition of Assets

- 31 An asset is defined in AASB 138 *Intangible Assets* as a resource (a) controlled by an entity as a result of past events and (b) from which future economic benefits are expected to flow to the entity.

NZ An asset is a resource (a) controlled by an entity as a result of past events and (b) from which future economic benefits are expected to flow to the entity.

AASB, 3/09 – Preference is to retain the reference to the Standard, but will adopt NZ approach if the FRSB reconfirms no cross-reference. FRSB to reconsider, 4/09.

- 32 An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognised as an asset when, and only when:

- (a) **it is probable that the future economic benefits associated with the asset will flow to the entity; and**
- (b) **the fair value of the asset can be measured reliably.**

Control of an Asset

- 33 The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets. In accordance with paragraph 99, entities may, but are not required, to recognise services in-kind.
- 34 An announcement of an intention to transfer resources to a not-for-profit entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a public school were destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognise an inflow of resources (resources receivable) at the time of the announcement. In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding because the recipient entity cannot exclude or regulate the access of the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognise an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources.

Past Event

- 35 Not-for-profit entities normally obtain assets from governments, persons, 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 gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

- 36 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 agrees to transfer funds to a not-for-profit entity (reporting entity), the agreement is binding and the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

- 37 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 AASB 137).

Contributions from Owners

- 38 Contributions from owners are defined in paragraph 8. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 39 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 income, the entity recognises 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.
- 39 A contribution from owners may be evidenced by, for example:
- (a) a formal designation of the transfer (or a class of such transfers) by the contributor or a parent of the contributor as forming part of the recipient's contributed 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 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.

Exchange and Non-exchange Components of a Transaction

- 40 Paragraphs 41 and 42 below address circumstances in which an entity gains control of resources embodying future economic benefits other than by contributions from owners.
- 41 Paragraph 8 defines exchange transactions and non-exchange transactions and paragraph 11 notes that a transaction may include two components, an exchange component and a non-exchange component.
- 42 Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognises the exchange component according to the principles and requirements of other Australian Accounting Standards. The non-exchange component is recognised according to the principles and requirements of this Standard. In determining whether a transaction has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

Measurement of Assets on Initial Recognition

- 43 **An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition, except that financial assets shall be measured in accordance with AASB 139.**

Issue, 4/09 – Amended wording above assumes that the ED is subject to the existing requirements of AASB 139: initial asset measurement is at fair value plus transaction costs; subsequent measurement is most likely at amortised cost using the effective interest method. Refer staff memo.

- 44 Consistent with AASB 102 *Inventories*, AASB 116, AASB 138, and AASB 140 *Investment Property*, assets acquired by not-for-profit entities through non-exchange transactions are measured at their fair value as at the date of acquisition.

Issue, 4/09 – AASB 102 (para Aus10.1) in fact requires inventories acquired by NFPEs at no cost or for nominal consideration to be measured at current replacement cost, not fair value. Either propose an amendment to AASB 102 or else modify para 44. The other Standards listed in para 44 do require fair value in such circumstances. Same issue at para 84. Refer staff memo.

FRSB, 4/09 – will consider whether to propose adding this FV requirement to NZ IAS 38 *Intangible Assets*. If not, NZ text here will not refer to intangible assets. Applies to para 84 also.

Recognition of Income from Non-exchange Transactions

- 45 **An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as income, except to the extent that a liability is also recognised in respect of the same inflow.**
- 46 **As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it shall reduce the carrying amount of the liability recognised and recognise an amount of income equal to that reduction.**
- 47 When an entity recognises an increase in equity as a result of a non-exchange transaction, it recognises income. If it has recognised a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognises income. If an inflow of resources satisfies the definition of contributions from owners, it is not recognised as a liability or income.
- 48 The timing of income 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, income is recognised as goods or services are provided.

Measurement of Income from Non-exchange Transactions

- 49 **Income from non-exchange transactions shall be measured at the amount of the increase in equity recognised by the entity.**

- 50 When, as a result of a non-exchange transaction, an entity recognises an asset, it also recognises income equivalent to the amount of the asset measured in accordance with paragraph 43, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured in accordance with the requirements of paragraph 58, and the amount of the increase in equity, if any, recognised as income. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognised as income.

Present Obligations Recognised as Liabilities

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

Present Obligation

- 52 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.
- 53 In many instances, taxes are levied and assets are transferred to not-for-profit entities in non-exchange transactions pursuant to laws, regulation or other binding arrangements that impose stipulations that they be used for particular purposes. For example:
- (a) taxes, the use of which is limited by laws or regulations to specified purposes;
 - (b) transfers, established by a binding arrangement that includes conditions:
 - (i) from national governments to provincial, state or local governments;
 - (ii) from state/provincial governments to local governments;
 - (iii) from governments to other not-for-profit 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 not-for-profit entities.
- 54 In the normal course of operations, a reporting entity may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognised until the taxable event occurs.
- 55 If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognises a liability for an advance receipt until such time as the arrangement becomes binding.

Conditions on a Transferred Asset

- 56 **Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognised in accordance with paragraph 51.**
- 57 Stipulations are defined in paragraph 8. Paragraphs 15-26 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyses any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

Measurement of Liabilities ~~on Initial Recognition~~

- 58 **The amount recognised as a liability (other than advance receipts) shall be the best estimate of the amount required to settle the present obligation at the reporting date, except that financial liabilities shall be measured in accordance with AASB 139. ~~The amount recognised as a liability for advance receipts shall be equal to the amount recognised for the related assets.~~**

Issue, 4/09 – Amended wording above assumes that the ED is subject to the existing requirements of AASB 139: initial liability measurement is at fair value plus transaction costs; subsequent measurement is most likely at amortised cost using the effective interest method. Refer staff memo.

AASB, 3/09 – Amended the heading as the requirements in para 58 apply at each reporting date, not just upon initial recognition. Deleted the proposed sentence for advance receipts as unnecessary and not clear re “related assets”.

- 59 The estimate for liabilities other than advance receipts and financial liabilities takes account of the risks and uncertainties that surround the events causing the liability to be recognised. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in AASB 137.

Taxes

- 60 An entity shall recognise an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.**
- 61 Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
- 62 Taxation income 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 income accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognises assets and income for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognise assets and income 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 recognise income in respect of the taxes collected – rather, the individual governments that impose the taxes recognise assets and income in respect of the taxes.
- 63 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 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.
- 64 Taxes satisfy the definition of “non-exchange transaction” because the taxpayer transfers resources to the government, without receiving approximately equal value directly in exchange. Whilst the taxpayer may benefit from a range of social policies established by the government, these are not provided directly in exchange as consideration for the payment of taxes.
- 65 As noted in paragraph 53, some taxes are levied for specific purposes. If the government is required to recognise a liability in respect of any conditions relating to assets recognised as a consequence of specific purpose tax levies, it does not recognise income until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability because the specific purposes amount to restrictions not conditions.

The Taxable Event

- 66 Similar types of taxes are levied in many jurisdictions. The reporting entity analyses 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, if the tax is levied on a periodic basis, the period for which the tax is levied.

Advance Receipts of Taxes

- 67 Consistent with the definitions of “assets,” “liabilities” and the requirements of paragraph 60, resources for taxes received prior to the occurrence of the taxable event are recognised as an asset and a liability (advance receipts) because the event that gives rise to the entity’s entitlement to the taxes has not occurred and the criteria for recognition of taxation income have not been satisfied (see paragraph 60), notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognised until the taxable event occurs. When the taxable event occurs, the liability is discharged and income is recognised.

Measurement of Assets Arising from Taxation Transactions

- 68 Paragraph 43 requires that assets (other than financial assets) arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform with the requirements of paragraph 43. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

Issue, 4/09 – Are assets arising from taxation transactions normally financial assets? If so, and if AASB 139 measurement requirements are applied to financial assets per para 43, para’s 68 to 70 are principally commentary on measuring the fair value part of the initial (and subsequent?) carrying amount.

- 69 Where there is a separation between the timing of the taxable event and collection of taxes, public sector entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers and the relationship of taxation receivable to other events in the economy. Measurement models will also take account of other factors such as:
- (a) the tax law allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;
 - (b) taxpayers failing to file returns on a timely basis;
 - (c) valuing non-monetary assets for tax assessment purposes;
 - (d) complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;
 - (e) the potential that the financial and political costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the government may outweigh the benefits received;
 - (f) the tax law permitting taxpayers to defer payment of some taxes; and
 - (g) a variety of circumstances particular to individual taxes and jurisdictions.
- 70 Measuring assets and income arising from taxation transactions using statistical models may result in the actual amount of assets and income recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 71 In some cases the assets arising from taxation transactions and the related income cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and income may be recognised 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 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

- 72 Taxation income shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.**
- 73 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 cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by cheque 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 recognised separately in the statement of financial performance. Tax income should be increased for the amount of any of these expenses paid through the tax system.
- 74 Taxation income shall not be grossed up for the amount of tax expenditures.**
- 75 In most jurisdictions, governments use the tax system to encourage certain financial behaviour and discourage other behaviour. 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 income, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, income or expenses of the taxing government.
- 76 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. AASB 101 *Presentation of Financial Statements* prohibits the offsetting of items of income and expense unless permitted by another Australian Accounting Standard. The offsetting of tax income and expenses paid through the tax system is not permitted.

Transfers

- 77 Subject to paragraph 99, an entity shall recognise 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.**
- 78 Transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange and are not taxes as defined in this Standard.
- 79 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 from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity decreases the carrying amount of the liability.
- 80 An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity promises to transfer resources, but fails to do so. Consequently only when a claim is enforceable, and the entity assesses that it is probable that the inflow of resources will occur, will assets, liabilities and/or income be recognised. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.
- 81 Transfers of resources that satisfy the definition of “contributions from owners” will not give rise to income. Agreements that specify that the entity providing resources ~~is entitled~~ acquires a financial interest in the recipient entity that conveys entitlement to distributions of future economic benefits during the recipient entity's life, ~~or~~ and distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or that specify that the entity providing resources acquires a financial interest in the recipient entity that can be sold, exchanged, transferred or redeemed, are, in substance, agreements to make a contribution from owners.

Issue, 4/09 – The IPSAS 23 wording is not strictly consistent with the definition of “contributions from owners”. Do members agree with the amendments in paragraph 81?

- 82 Transfers satisfy the definition of “non-exchange transactions” because the transferor provides resources to the recipient entity without the recipient entity providing approximately equal value directly in exchange. If an agreement stipulates that the recipient entity is to provide approximately equal value in exchange, the agreement is not a transfer agreement, but a contract for an exchange transaction that should be accounted for under AASB 118.
- 83 An entity analyses all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets

- 84 As required by paragraph 43, transferred assets (other than financial assets) are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with Australian Accounting Standards. As noted previously, inventories, property, plant, equipment, intangible assets or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition in accordance with the requirements of AASB 102, AASB 116, AASB 138 and AASB 140. Financial ~~instruments~~ assets, including cash and transfers receivable that satisfy the definition of a financial ~~instrument asset~~ asset, and ~~other assets will also be~~ are measured at fair value as at the date of acquisition in accordance with ~~paragraph 43~~ AASB 139.

Issues, 4/09 – Again, references required to AASB 139, if the ED is to be subject to the existing requirements for financial assets.

As per note at para 44, either propose an amendment to AASB 102 to require fair value measurement or else modify para 84.

FRSB, 4/09 – will consider whether to propose adding this fair value requirement to NZ IAS 38 *Intangible Assets*. If not, NZ text here will not refer to intangible assets.

Debt Forgiveness and Assumption of Liabilities

- 85 Lenders will sometimes waive their right to collect a debt owed by a not-for-profit entity, effectively cancelling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognises an increase in equity because a liability it previously recognised is extinguished.
- 86 Entities recognise income in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.
- 87 Where a parent forgives debt owed by a wholly-owned subsidiary, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 38-39.
- 88 Income arising from debt forgiveness is measured at the fair value of the debt forgiven. This will normally be the carrying amount of the debt forgiven.

Fines

- 89 Fines are economic benefits received or receivable by a not-for-profit entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some jurisdictions law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognised as a fine.
- 90 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 recognised as a liability. As such, fines are recognised as income when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 32. As noted in paragraph 13, where an entity collects fines in the capacity of an agent, the fine will not be income of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

- 91 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 for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.
- 92 Bequests which satisfy the definition of an asset are recognised as assets and income 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 an inflow of future economic benefits may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.
- 93 The fair value of bequeathed assets is determined in the same manner as for gifts and donations, as is described in paragraph 98. In jurisdictions where deceased estates are subject to taxation, the tax authority may already have determined the fair value of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the fair value of the resources received or receivable.

Gifts and Donations, including Goods In-kind

- 94 Gifts and donations are voluntary transfers of assets including cash or other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 99-104 below.
- 95 Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.
- 96 Gifts and donations (other than services in-kind) are recognised as assets and income 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.
- 97 Goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, income is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and income recognised as the conditions are satisfied.
- 98 On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be 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 recognised 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-specialised buildings, motor vehicles and many types of plant and equipment.

Services In-kind

- 99 **An entity may, but is not required to, recognise services in-kind as income and as an asset. This policy may be applied on a class-by-class basis.**

Issue, 4/09 – The question was asked at the AASB's 3/09 meeting whether this applies to all services in-kind or may be applied on a class-by-class basis. AASB 108 para 13 requires consistent policies for similar transactions, unless a Standard specifically requires or permits categorisation of items for which different policies may be appropriate.

Paragraph 104 refers to developing an accounting policy for a class of services in-kind. Furthermore, although disclosures by class (para 108(e)) would not be sufficient to allow different recognition policies, para 109 refers to "major classes of services in-kind received, including those not recognised." This indicates some classes could be recognised and others not. This wording is from IPSAS 23.

Do members agree with the amendment to para 99 so that the permitted categorisation of services in-kind for recognition purposes is obvious?

- 100 Services in-kind are services provided by individuals to not-for-profit entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits are expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognised to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognise an increase in an asset and income, and a decrease in an asset and an expense. In many cases, the entity will recognise an expense for the consumption of services in-kind. However, services in-kind may also be utilised to construct an asset, in which case the amount recognised in respect of services in-kind is included in the cost of the asset being constructed.
- 101 Not-for-profit entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest, for example:
- (a) technical assistance from other governments or international organizations;
 - (b) persons convicted of offences may be required to perform community service for a not-for-profit entity;
 - (c) hospitals may receive the services of volunteers;
 - (d) 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.
- 102 Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind which are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 101, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training and are fundamentally different from the services the entity would acquire if the services in-kind were not available.
- 103 Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in-kind. Paragraph ~~109~~ 108(e), however, ~~encourages~~ requires the disclosure of the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some not-for-profit entities, the services provided by volunteers are not material in amount, but may be material by nature.
- 104 In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognise those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognise a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

- 105 Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset because the recipient entity is unable to control the access of the transferor to the future economic benefits embodied in the item pledged. Entities do not recognise pledged items as assets or income. If the pledged item is subsequently transferred to the recipient entity, it is recognised as a gift or donation, in accordance with paragraphs 94-98 above. Pledges may warrant disclosure as contingent assets under the requirements of AASB 137.

Advance Receipts of Transfers

- 106 Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognised as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognise an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognised until the event which makes the transfer arrangement binding occurs and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and income is recognised.

Disclosures

- 107 An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**
- (a) **the amount of income from non-exchange transactions recognised during the period by major classes showing separately:**
 - (i) **taxes, showing separately major classes of taxes; and**
 - (ii) **transfers, showing separately major classes of transfer income.**
 - (b) **the amount of receivables recognised in respect of non-exchange income;**
 - (c) **the amount of liabilities recognised in respect of transferred assets subject to conditions;**
 - (d) **the amount of assets recognised that are subject to restrictions and the nature of those restrictions;**
 - (e) **the existence and amounts of any advance receipts in respect of non-exchange transactions; and**
 - (f) **the amount of any liabilities forgiven.**
- 108 An entity shall disclose in the notes to the general purpose financial statements:**
- (a) **the accounting policies adopted for the recognition of income from non-exchange transactions;**
 - (b) **for major classes of income from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;**
 - (c) **for major classes of taxation income which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax;**
 - (d) **the nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received; and**
 - (e) **the nature and type of major classes of services in-kind received.**
- 109 Entities are required to disclose the nature and type of major classes of services in-kind received, including those not recognised. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class. The disclosures include whether each class of services in-kind is recognised in the financial statements.
- 110 The disclosures required by paragraphs 107 and 108 assist the reporting entity to satisfy the objectives of financial reporting, as set out in AASB 101, which is to provide information useful for decision making and to demonstrate the accountability of the entity for the resources entrusted to it.
- | |
|---|
| NZ The disclosures required by paragraphs 107 and 108 assist the reporting entity to satisfy the objectives of financial reporting, as set out in the NZ Framework, which ... |
|---|
- 111 Disclosure of the major classes of income assists users to make informed judgments about the entity's exposure to particular income streams.
- 112 Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognised in respect of conditions and the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 107(c).
- 113 Paragraph 107(e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgements about the entity's future income and equity position.
- 114 As noted in paragraph 69, in many cases an entity will be able to reliably measure assets and income arising from taxation transactions, using, for example, statistical models. However, there may be

exceptional circumstances where an entity is unable to reliably measure the assets and income arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgements about the entity's future income and equity position.

- 115 Paragraph 108(d) requires entities to make disclosures about the nature and type of major classes of gifts, donations and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgements about the entity's future income and equity position.
- 116 Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. Paragraph 108(e) requires an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgments about the contribution made by such services to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such services for the achievement of its objectives in the future.

Transition

- 117 ~~When this Standard is first applied by an entity, it shall be applied retrospectively. An entity shall apply this Standard prospectively from the beginning of the earliest comparative period presented in the financial statements to which this Standard is first applied. Retrospective application is permitted.~~

AASB, 3/09 – agreed this transition approach. Early application is also permitted per paragraph 4, which is then either prospective or retrospective as above.

FRSB, 4/09 – will consider the AASB's proposed transitional provisions. NZ staff were asked to consider (a) requiring the derecognition via retained profits of liabilities that don't meet the recognition criteria of the ED; and (b) permitting retrospective application of the resulting Standard. NZ staff have concluded that there is no compelling reason for the NZ ED to have different transitional provisions.

[Effective Date]

- [118 **An entity shall apply this Standard in its annual financial statements for periods beginning on or after [Date]. Earlier application is permitted. If an entity applies this Standard in its financial statements for a period before [Date], it shall disclose that fact.**]

The heading and para 118 above are included in the draft NZ ED but would not appear in the Australian ED as this is covered by paragraphs 3 and 4.

IMPLEMENTATION GUIDANCE

MEASUREMENT, RECOGNITION AND DISCLOSURE OF INCOME FROM NON-EXCHANGE TRANSACTIONS — EXAMPLES

This guidance accompanies, but is not part of, AASB 10XX.

Example 1: Income Tax (Paragraph 66)

- 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 taxable income by taxpayers. At the end of the reporting period, the government recognises assets and income in respect of personal income tax on the taxable income earned during the reporting period to the extent that it can reliably measure it. Assets and income will also be recognised in respect of income taxes on taxable 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 Income (Paragraphs 68-71)

- 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 income should be recognised 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 income 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 instalments deducted by employers, sales tax collections (if it levies such a tax) and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model, and the external auditor tests the validity of the model in accordance with international and national auditing standards.
- IG5 The model enables the reporting entity to reliably measure the assets and income accruing to it during the reporting period, which are then recognised 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 income. In these circumstances estimates of tax income for one reporting period may be revised in a subsequent period. Changes in estimates are recognised prospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Example 3: Value Added Tax (Paragraph 66)¹

- IG6 A national government (reporting entity) imposes a value added tax (VAT) on all businesses. The tax is 15 percent of the value added and is collected by merchants from customers (taxpayers) at the time of sale. Large and medium sized businesses are required to submit VAT returns electronically to the tax department on a weekly basis; however, small businesses are permitted to submit VAT returns manually on a quarterly basis.
- IG7 The government controls a resource – VAT receivable – when the taxable event occurs, which is the undertaking of taxable activity, that is, the sale of value added goods or services, during the reporting period. The government recognises assets and ~~revenue income~~ 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

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

the tax receivable. In many circumstances, the taxation return period will not coincide with the reporting period. In these circumstances estimates of tax ~~revenue~~ income for the reporting period may be revised in a subsequent period. Changes in estimates are recognised prospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

NZ FRSB, 2/09 – decided to delete the Example as NZ has a GST rather than a VAT.

AASB, 3/09 – decided to retain. The examples are general and not intended to be jurisdiction-specific.

Example 4: Goods and Services Tax (Paragraph 66)

IG8 A national government (reporting entity) imposes a goods and services tax (GST) on sales of goods and services. The tax is 10 percent of the value of goods and services sold. Most sellers of goods and services are 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 recognises assets and income 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 66)

IG10 A national government (reporting entity) imposes customs duty on all imports of goods. The duties vary depending on the type of goods imported and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IG11 The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognises assets and income 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 66)

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

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

Example 7: Property Tax (Paragraph 66)

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

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

Example 8: Advance Receipts of Income Tax (Paragraph 67)

IG16 Government A (reporting entity) levies income tax on all residents within its jurisdiction. The tax period and the reporting period are January 1 to December 31. Self-employed taxpayers are required to pay an estimate of their income tax for the year by December 24 of the year immediately preceding the commencement of the tax year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth, unless the taxpayer provides an explanation prior to December 24 of a lower amount (penalties apply if the taxpayer's assessment proves to be materially lower than the final amount owed). After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the government.

IG17 The resources received from self-employed taxpayers by December 24 are advance receipts against taxes due for the following year. The taxable event is the earning of income during the taxation period, which has not commenced. The reporting entity recognises an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Example 8.5: Parliamentary Appropriations to a Government Agency

~~IGx Parliamentary appropriations to a government agency (e.g. a department) may be designated as recurrent appropriations, capital or works and services appropriations or other appropriations. Irrespective of the designation given to a parliamentary appropriation, its recognition as income, a contribution from owners or a liability requires an evaluation of the characteristics of the parliamentary appropriation by reference to the definitions of income, contributions from owners and liabilities. This ensures that the substance, rather than the form, of the parliamentary appropriation is reported. [essentially AASB 1004, para 33]~~

~~IGy Where the nature of parliamentary appropriations is such that the government agency's control over appropriations is not dependent on expenditure or the incurrance of obligations or the completion of agreed outputs, services or facilities, the government agency controls the appropriated amounts and recognises income at the earliest of:~~

- ~~(a) the date on which the government department's agency's authority to expend appropriated funds becomes effective; and~~
- ~~(b) the receipt of the appropriated funds.~~

AASB, 3/09 – agreed to delete draft Australian example on parliamentary appropriations.

Example 9: Grant to Another Level of Government for General Purposes (Paragraphs 15-17, 77)

IG18 The national government (transferor) makes a grant of CU10 million to a local government in a socio-economically deprived area. The local government (reporting entity) 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. All local governments are required to prepare and present audited general purpose financial statements.

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

Example 10: Transfer with Stipulations that do not Satisfy the Definition of a Condition (Paragraphs 21-26)

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

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

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

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

Example 11: Transfer to a University with Restrictions (Paragraphs 20 and 77)

- IG22 The national government (transferor) transfers 200 hectares of land in a major city to a university (reporting entity) for the establishment of a university campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.
- IG23 The university recognises the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognised at its fair value in accordance with AASB 116 *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 recognises income in respect of the land in the statement of financial performance of the reporting period in which the land is recognised as an asset.

Example 12: Grant to Another Level of Government with Conditions (see Paragraphs 18-19)

- IG24 The national government (transferor) grants CU10 million to a provincial government (reporting entity) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing railroad and tramway system modernization, 40 percent for new railroad or tramway systems and 20 percent for rolling stock purchases and improvements. Under the terms of the grant, the money can only be used as stipulated and the provincial government is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the national government.
- IG25 The provincial government recognises the grant money as an asset. The provincial government also recognises a liability in respect of the condition attached to the grant. As the province satisfies the condition, that is, as it makes authorised expenditures, it reduces the liability and recognises income 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 university (reporting entity) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation stipulates that the research results are to be shared with it before being announced to the public and that it has the right to apply for a patent on the compound.
- IG27 This is an exchange transaction. In return for the “grant,” the university provides research services and an intangible asset, the right (a future economic benefit) to profit from the research results. AASB 118 *Revenue* and AASB 138 *Intangible Assets* apply to this transaction.

Example 14: Debt Forgiveness (Paragraphs 85-88)

- IG28 The national government (transferor) lent a local government (reporting entity) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.
- IG29 When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognises the liability for the loan and recognises income in the statement of financial performance of the reporting period in which the liability is derecognised.

Example 15: Purchase of Property with Exchange and Non-exchange Components (Paragraphs 9-12, 40-42)

- 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 recognises 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 income from a non-exchange transaction of CU50,000 (the fair value of the increase in equity recognised).

Example 16: Proposed Bequest (Paragraphs 91-93)

IG32 A 25-year-old recent graduate (transferor) of a 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 university does not recognise any asset or income 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 105)

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

IG35 The public hospital does not recognise 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 of the pledged resources, therefore, it cannot recognise the asset or the related income until the donation is binding on the donor.

Example 18: Fine (Paragraphs 89-90)

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) recognises a receivable and income of CU50 million in the general purpose financial statements of the reporting period in which the fine is imposed.

Example 19: External Assistance Recognised (Paragraphs 77-83)

IG38 National Government A (reporting entity) enters into an external assistance agreement with National Government B, which provides National Government A with development assistance grants to support National Government A's health objectives over a two-year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by National Government A. Government A measures the fair value of the development assistance at CU5 million.

IG39 When the external assistance agreement becomes binding, National Government A recognises an asset (a receivable) for the amount of CU5 million, and income 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 recognise a liability.

Comment: In Example 19, the external assistance is recognised as income in full by the recipient once the agreement becomes binding, even though it relates to a two-year period. This is because there are no conditions upon the assistance. Contrast Example 20.

Example 20: Income of Aid Agency (Paragraphs 77, 94-98)

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

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

	CU Million
Budget approved October 24, 20X7	55

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

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

IG43 In 20X8, Green Aid Agency recognises CU53 million of income 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.

Comment: In Example 20, the external assistance is not recognised as income by the recipient until the budget year for which the funds have been provided, even though CU15m is received in advance of that, under a binding agreement as Green-Aid Agency's budget had been approved by then. Why shouldn't CU55m be recognised as income (with CU2m doubtful debts expense) in 20X7? Contrast Example 19.

Views on Examples 19 and 20 are being sought from IPSASB staff.

Example 21: Goods In-kind Recognised as Income (Paragraphs 43, 94-98)

IG44 Transferor Government A has an arrangement with the not-for-profit 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 income until receipt of the promised rice. Government A promises to provide Aid Agency Inc. with CU300,000 during 20X5. Government A subsequently transfers 1,000 metric tons of rice to Aid Agency Inc. on January 12, 20X5. The transfer of the rice takes place in one of the ports of the transferor nation. According to the details of the funding agreement between Aid Agency Inc. and Government A, the rice is valued at the previously agreed amount of CU300 per ton, with the result that the transfer of 1,000 metric tons of rice fully discharges Government A's financial commitment of CU300,000. During February and March 20X5, Aid Agency Inc. provides the rice to a network of local distribution agencies in Nations B and C in order to meet the needs of starving people.

IG45 On January 12, 20X5 the market price of 1,000 metric tons of rice was: CU280,000 in Government A's nation; CU250,000 in the international commodities market; CU340,000 in recipient Nation B and CU400,000 in recipient Nation C.

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

Example 22: Disclosure of Services In-kind not Recognised (Paragraphs 99-103, 109)

IG47 A public hospital's (reporting entity) accounting policies are to recognise voluntary services received as assets and income 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 organised program. The principal aim of the program is to expose volunteers to the hospital environment and to promote nursing as a career. Volunteers must be at least sixteen years of age and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The public hospital does not pay the volunteers nor would it engage employees to perform volunteers' work if volunteers were not available.

IG48 The hospital analyses 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 future economic benefits 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 recognise the services in-kind provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 23: Contribution from Owners (Paragraphs 38-39)

IG49 In 20X0 the neighbouring 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 recognises 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 aluminium smelter within the city, which will result in a doubling of the city's electricity demand. The three cities agree to amend the charter of TCEGS to permit Berolini to make a contribution from owners to enable the construction of additional generating capacity. After an independent valuation of TCEGS, the cities agree that Berolini may make a CU50 million contribution from owners and increase its ownership share to 49.9%, with Altonae and Cadomi retaining 25.05% each.

IG50 When the amendment to the charter becomes binding TCEGS will recognise 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 21-26)

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

IG52 National Park Department analyses 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 recognises an increase in an asset (cash in bank) and grant income; it does not recognise a liability.

BASIS FOR CONCLUSIONS ON AASB 10XX

This Basis for Conclusions accompanies, but is not part of, AASB 10XX.

Introduction

- BC1 The Australian Accounting Standards Board (AASB) and the Financial Reporting Standards Board (FRSB) have worked together in developing [proposed] standards on income from non-exchange transactions for application in each jurisdiction. The [proposed] Australian Standard, AASB 10XX *Income from Non-exchange Transactions (Taxes and Transfers)*, has been developed for application by private and public sector not-for-profit entities. The [proposed] New Zealand Standard, FRS-XX *Income from Non-Exchange Transactions (Taxes and Transfers)*, has been developed for application by public benefit entities reporting in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs).
- BC2 This Basis for Conclusions summarises the Boards' considerations in reaching their conclusions on the [proposed] Standards. It sets out the reasons why the Boards developed this [proposed] Standard, the approach taken to developing the [proposed] Standard and the key decisions made. It also notes key differences between [the proposed] FRS-XX and [the proposed] AASB 10XX and the reasons for those differences. In making decisions individual Board members gave greater weight to some factors than to others.

Reasons for Developing the [proposed] Standard

- BC3 Income from non-exchange transactions, such as grants, donations, bequests and taxes, often dominates the income streams of public benefit entities (NZ) and not-for-profit entities (Australia). Income from non-exchange transactions comprises transfers from other entities and taxes paid or payable by other entities. The Boards acknowledge that existing financial reporting standards in each jurisdiction do not comprehensively address the recognition and measurement issues associated with income from non-exchange transactions and that this has led to variations in practice. For example:
- (a) AASB 118 *Revenue* and NZ IAS 18 *Revenue* deal solely with revenue arising from exchange transactions;
 - (b) AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* applies only to for-profit entities. In New Zealand public benefit entities are precluded from applying the recognition, measurement and presentation requirements of NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*; and
 - (c) AASB 1004 *Contributions* applies only to not-for-profit entities and addresses income from non-exchange transactions. However, there is a range of views concerning whether the requirements are appropriate, particularly in relation to grants that are intended to be utilised over a specified period and grants subject to conditions.
- BC4 The Boards consider that it would be desirable to provide or reconsider requirements for the recognition of income from non-exchange transactions, including the circumstances in which an entity is required to recognise a liability in relation to unperformed obligations associated with non-exchange transactions.
- BC5 The Boards published their proposals in [Month] 2009 as Exposure Drafts ED XX (Australia) and ED XX (NZ), both titled *Income from Non-exchange Transactions (Taxes and Transfers)*. The deadline for comments was [xx Month 2009]. After reviewing the responses and considering the issues further, the Boards finalised their corresponding [proposed] Standards. The AASB issued its Standard in [Month Year]. The FRSB issued its corresponding Standard in [Month Year] following approval by the Accounting Standards Review Board (ASRB).

<p>Issue, 4/09 – Should the Basis for Conclusions focus on explaining the Exposure Draft or be presented as the BC that would accompany the [proposed] Standard? If the focus is the ED, then para BC5 will be deleted. References to “[proposed] Standard” then should be amended to ED, and some other wording changes would be required, e.g. in para BC17 re amendments to other Standards.</p>
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Approach to Developing the [proposed] Standard

IPSAS 23

- BC6 After considering a number of alternative approaches, the Boards agreed to develop a standard based on International Public Sector Accounting Standard IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, issued in December 2006. In deciding on this approach the Boards considered

that it would be an efficient way of developing a comprehensive standard. The Boards noted that because IPSAS 23 had been developed with reference to other IPSASs, most of which are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), it should be compatible generally with the existing Australian and New Zealand financial reporting standards.

- BC7 The Boards agreed to adopt the requirements of IPSAS 23 and make the minimum changes required to facilitate application of the [proposed] Standard in each jurisdiction. Significant decisions made by the Boards in giving effect to this approach are discussed below.

Income

- BC8 IPSAS 23 is entitled *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The IPSASB defines “revenue” as “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.” The IPSASB definition of revenue is not limited to revenue from ordinary activities. It is therefore equivalent to the definition of income in AASB standards and NZ IFRSs, which encompasses both revenue and gains. The Boards noted that non-exchange transactions may occur outside the course of the ordinary activities of an entity and agreed that in order to align the scope of the [proposed] Standard with that of IPSAS 23, the title of the [proposed] Standard should refer to “income” and the term “income” should be used throughout the [proposed] Standard.

Service Potential

- BC9 IPSAS 23 includes numerous references to ‘economic benefits and service potential’. This is consistent with the approach adopted by the IPSASB in defining the elements of financial statements. Both the AASB and the FRSB have previously stated that in respect of not-for-profit entities / public benefit entities the term economic benefits is synonymous with the notion of service potential or is to be read as having the same meaning as service potential. References to service potential have therefore been omitted from the [proposed] Standard.

Contributions from Owners

- BC10 The [proposed] Standard uses the term “contributions from owners” whereas AASB 1004 uses the term “contributions by owners”. IPSAS 23 refers to the definition of “contributions from owners” set out in IPSAS 1 *Presentation of Financial Statements*, but the Boards decided to include the definition in the [proposed] Standard. The AASB noted that the definition differs slightly from the definition of “contributions by owners” in AASB 1004 and decided to adopt the international definition. The differences in wording are editorial.

Examples

- BC11 The Boards considered whether some of the examples in IPSAS 23 should be modified to more closely reflect the regulatory requirements in each jurisdiction. The Boards decided not to amend the IPSAS 23 examples, on the grounds that the examples are intended to illustrate the application of the [proposed] Standard and that they do not need to reflect the specific circumstances of a jurisdiction to do this. However, the Boards agreed to omit Example 25 of the IPSAS 23 Implementation Guidance from the [proposed] Standard because it illustrates presentation and disclosure requirements in IPSASs that differ from the corresponding requirements in AASB Standards and NZ IFRSs. Example 25 also illustrates the specific transitional provisions of IPSAS 23, which have not been adopted in this [proposed] Standard.
- BC12 The Boards also considered whether additional examples illustrating the application of the [proposed] Standard to local government rates and parliamentary appropriations should be included. The Boards concluded that such additional examples are not necessary, but agreed to ask constituents via the Exposure Drafts whether further guidance was needed.

Scope

- BC13 The [proposed] Standard has a limited scope. In Australia the scope is limited to not-for-profit entities (whether in the private sector or the public sector). In New Zealand the scope is limited to public benefit entities. In the absence of a Standard that specifically deals with a non-exchange transaction, the Boards noted that a profit-oriented entity should develop an accounting policy in the same way that it would for any issue – in accordance with the requirements on the selection of accounting policies set out in AASB 108 or NZ IAS 8, both titled *Accounting Policies, Changes in Accounting Estimates and Errors*. Profit-oriented entities would also have to apply the requirements of any other relevant standard (for example, the domestic equivalents to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*). The Boards concluded that it would be inappropriate for the [proposed] Standard to provide any guidance on the selection of accounting policies by profit-oriented entities.

Differential Reporting Concessions for Qualifying Entities in New Zealand

BC14 [The proposed] FRS-XX does not provide any differential reporting concessions for qualifying entities applying NZ IFRSs in consideration of the significance of non-exchange transactions for many public benefit entities.

OR

BC14 [This paragraph omitted from AASB 10XX.]

OR

[This section omitted from AASB 10XX.]

Issue, 4/09 – Would AASB members prefer the NZ content or the “not relevant to Australia” content for this para? Retaining a paragraph here would keep the BC para numbers the same as in the NZ BC ... until para BC18, as the NZ BC is not expected to include the section on the differences between AASB 10XX and AASB 1004.

Alternatively, the AASB may wish to delete the paragraph and include an unnumbered note, which is the NZ staff proposal in relation to our differences section because it includes numerous paragraphs.

AASB staff view – keep para BC14 and the NZ content, so that Australian readers can see that no concessions are proposed in NZ, even if they don’t know what qualifying entities are.

Transitional Provisions

BC15 The Boards agreed that the transitional provisions in the ED should propose prospective application from the start of the earliest comparative period presented in the first financial statements to which the resulting Standard applies, with retrospective application permitted. The Boards consider that it may be onerous to require retrospective application, but concluded that an entity should not be prevented from applying the [proposed] Standard retrospectively if it so chose.

Differences between AASB 10XX and FRS-XX

BC16 The main differences between AASB 10XX and FRS-XX are as follows:

- (a) FRS-XX includes a definition of “public benefit entities” and AASB 10XX includes a definition of “not-for-profit entities”. These differences reflect the different term used in each jurisdiction to describe this type of entity.
- (b) FRS-XX does not apply to a business combination that is a non-exchange transaction. AASB 10XX as set out in this Exposure Draft also does not apply to a business combination that is a non-exchange transaction, however the AASB is proposing to include the requirements for restructures of administrative arrangements presently in AASB 1004 in the resulting Standard.

The above section assumes no difference in the scope of each ED.

Amendments to other Standards

BC17 As a consequence of issuing the [proposed] Standard the AASB amended the requirements of a number of Standards, including:

- (a) AASB 102 *Inventories* – this Standard has been amended to require that the cost of inventories acquired by not-for-profit entities through a non-exchange transaction is measured at their fair value, instead of current replacement cost. This aligns the measurement requirements in AASB 102 with those in the [proposed] Standard; and
- (b) AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* – the previous requirements for not-for-profit entities to measure assets acquired at no cost or for nominal consideration at fair value have been amended to refer to acquisition through a non-exchange transaction.

Amendments to be confirmed by the AASB. This paragraph differs from that in the NZ BC due to different amendments to the NZ Standards.

Differences between AASB 10XX and AASB 1004

BC18 In developing this [proposed] Standard, the AASB supports changing or removing some of the requirements in AASB 1004 (December 2007). The main changes are as follows.

Initial Recognition of Liabilities rather than Income in some Cases

- BC19 AASB 1004 (paragraph 12) requires the recognition of income arising from the contribution of an asset to an entity under a non-reciprocal transfer (called a “non-exchange transaction” in this [proposed] Standard) when the entity controls the contribution, it is probable that the economic benefits will flow to the entity, and the amount can be reliably measured. The implication of this approach is that a liability would be recognised by an entity for conditional contributions only when the entity failed to meet the conditions for the retention of the contribution and the contribution had to be repaid or returned.
- BC20 Under this [proposed] Standard, conditions on a transferred asset give rise to a present obligation and result in the initial recognition of a liability, with income recognised at that time only to the extent (if any) that the asset recognised exceeds the liability. Conditions on transferred assets are defined as stipulations that specify that the future economic benefits embodied in the asset are required to be consumed by the recipient as specified or else returned to the transferor. A stipulation that transferred assets should be utilised over a stated period (such as the next financial year) is not a condition as defined. Such time requirements would represent only a restriction on transferred assets.
- BC21 Therefore, for non-exchange transactions that include conditions on the transferred assets, this [proposed] Standard delays the recognition of income until the obligations are satisfied, in contrast to AASB 1004. The AASB supports this change on the basis of a different view of the nature of the obligations underlying conditions on transferred assets. However, the specification of a time basis for non-exchange transactions such as grants is not sufficient for the deferral of income and the recognition of a liability instead.

Contributions from and Distributions to Owners

- BC22 The revision of AASB 1004 in December 2007 as a result of the short-term review of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments*, and AAS 31 *Financial Reporting by Governments* added requirements for the recognition of contributions from and distributions to owners to AASB 1004 for the first time (see paragraphs 48-53). The principal requirements are that contributions are recognised directly in equity when the contributed assets qualify for recognition, and distributions are recognised directly in equity when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition. These requirements apply only to local governments, government departments and whole of governments, rather than to all not-for-profit entities.
- BC23 The AASB concluded that these requirements should not be retained, since they had not been considered necessary for for-profit entities or for other not-for-profit entities. AASB 101 *Presentation of Financial Statements* specifies that transactions with owners in their capacity as owners are presented in the statement of changes in equity, with separate disclosure of contributions by and distributions to owners.

Restructure of Administrative Arrangements

- BC24 Paragraphs 54-59 of AASB 1004 address the recognition by local governments, government departments, general government sectors and whole of governments of restructures of administrative arrangements. These are essentially reorganisations of the way in which assets, liabilities, activities and responsibilities are allocated between a government’s controlled entities. Restructures are required to be recognised as contributions by or distributions to owners. Various disclosures are also specified. Although not included in the text of AASB 10XX, the AASB decided that these requirements continue to be useful and should be retained in the [proposed] Standard OR retained in a new Standard addressing contributions from and distributions to owners particularly.

To be revised, depending on AASB’s discussion of Interpretation 1038, the extent of requirements for contributions from and distributions to owners proposed to be retained, and their proposed location.

Contributions of Services In-kind

- BC25 AASB 1004 (paragraph 44) requires local governments, government departments, general government sectors and whole of governments to recognise contributions of services as income when the fair value of those services can be reliably determined and the services would have been purchased if they had not been donated. These requirements apply to annual reporting periods beginning on or after 1 July 2008. For previous reporting periods, the recognition of such services was required only of government departments, pursuant to AAS 29 *Financial Reporting by Government Departments*.

BC26 This [proposed] Standard permits entities to recognise services in-kind, on a class-by-class basis, but does not require them to be recognised. The AASB believes that it would be better for this [proposed] Standard to have a consistent approach to the recognition of contributions of services for all not-for-profit entities, since it does not specify any characteristics of services for which recognition may be most appropriate, following the approach in IPSAS 23. Therefore, the previous requirements for the recognition by certain types of not-for-profit entities in the public sector of some contributions of services have not been retained, but that policy can continue to be applied by such entities if they choose, since the recognition of contributions of services is still permitted.

Disclosures

BC27 Paragraphs 60-62 of AASB 1004 specify disclosure requirements for local governments, government departments, general government sectors and whole of governments. These cover conditions attaching to contributions, period effects (income in current period but contribution meant for a future period; income in previous period but contribution meant for the current period), and goods or services received for no or nominal consideration that have been recognised. These disclosures are replaced by the similar disclosures in AASB 10XX.

BC28 Additional disclosures are specified for government departments in AASB 1004 (paragraphs 63-68). These concern parliamentary appropriations in particular, including disclosures by class and by major category, expenditure by major category, and material variances, as well as the nature and financial effect of non-compliance with externally-imposed requirements. The AASB took the view that these disclosures could be provided voluntarily by government departments but were no longer needed as formal requirements in a Standard. Therefore, they are not included in AASB 10XX.

For-Profit Government Departments

BC29 Prior to the December 2007 amendments, AASB 1004 applied only to not-for-profit entities. However, the public-sector specific requirements added at that time to AASB 1004 also applied to for-profit government departments. As the focus of AASB 10XX is not-for-profit entities, whether in the public sector or the private sector, the AASB concluded that the scope of the [proposed] Standard should not be extended to any for-profit entities.

IPSASB Basis for Conclusions

BC30 The Boards decided to issue the IPSASB Basis for Conclusions together with the [proposed] Standard, for the information of constituents. This is presented in the next section.

IPSASB BASIS FOR CONCLUSIONS ON IPSAS 23

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

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

Background

- BC4 Governments and many other public sector entities derive the majority of their revenue from non-exchange transactions. These transactions include, principally, taxation, but also transfers. This IPSAS addresses these types of transactions from the perspective of a public sector entity.
- BC5 In 2002, the IPSASB (then the Public Sector Committee – PSC) initiated a project to develop an IPSAS for the recognition and measurement of revenue from non-exchange transactions (including taxes and transfers). The IPSASB established a Steering Committee to develop an ITC to consider the issues related to this issue and make initial recommendations. The Steering Committee was comprised of public sector financial reporting experts from a variety of countries and was chaired by an IPSASB member. An ITC, "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)," was published in January 2004, with comments requested by June 30, 2004. Fifty-one comments were received. They can be viewed on the IFAC website (www.ifac.org/Guidance/EXD-outstanding). In November 2004, the IPSASB analyzed those comments and began drafting ED 29, which was published in January 2006, with a request for comments by June 30, 2006.
- BC6 In November 2006, the IPSASB undertook an in-depth analysis of the responses to ED 29 and prepared this IPSAS and approved it for issue.

Approach

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

Entity Combinations

- BC8 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.

Monetary and Non-Monetary Assets

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

Enforceability of Stipulations

- BC10 This Standard defines stipulations, conditions and restrictions as terms in a transfer agreement or legislation or other binding arrangements imposed upon the use of transferred assets. The Standard reflects the view that stipulations, conditions and restrictions must be enforceable to be effective. The ITC and ED 29 also reflected the principle that stipulations imposed on the use of transferred assets are contained in laws, regulations or other binding arrangements, and are by definition enforceable. The IPSASB considers that this principle is necessary to prevent the inappropriate deferment of revenue recognition, or the disclosure of restrictions that have no substance.

Stipulations – Conditions

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

Stipulations – Restrictions

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

Transactions with Exchange and Non-Exchange Components

- BC14 This Standard notes that a single transaction can have two components, an exchange component and a non-exchange component. In these cases, the IPSASB is of the view that the transaction's component parts should be distinguished and recognized separately. Distinguishing the component parts enhances the transparency of financial statements and satisfies the qualitative characteristic of reporting the substance of transactions.

Contributions from Owners

- BC15 This Standard identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 39). Many public sector entities receive inflows of resources from entities that control them, own them or are members of them. In certain circumstances the inflow of resources will be designated as a "contribution from owners." Notwithstanding the documentation that evidences the form of the inflow of resources or its designation by a controlling entity, this Standard reflects the view that for an inflow of resources to be classified as a contribution from owners, the substance of the transaction must be consistent with that classification.

Measurement of Assets

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

Entity Bank Accounts

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

Measurement of Liabilities

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

Taxable Event

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

Advance Receipts

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

Expenses Paid Through the Tax System and Tax Expenditures

BC21 This Standard requires that expenses paid through the tax system be distinguished from tax expenditures, and that the former should be recognized separately from revenue in the general purpose financial statements. This is because, as defined in this Standard, expenses paid through the tax system satisfy the definition of expenses and, according to the principles established in IPSAS 1, "Presentation of Financial Statements," offsetting of expenses against revenue is not permitted. As defined in this Standard, tax expenditures are one of the many factors used to determine the amount of tax revenue received or receivable and are not recognized separately from revenue. The IPSASB is of the view that this treatment is consistent with the principles established in this Standard.

BC22 The treatment prescribed in this Standard for expenses paid through the tax system is different to that currently prescribed by the Organization for Economic Co-operation and Development (OECD) for member country statistical returns. The OECD currently requires tax revenue to be shown net of expenses paid through the tax system (or non-wastable tax credits) to the extent that an individual taxpayer's liability for tax is reduced to zero, payments to a taxpayer are shown as expenses.¹ The IPSASB is of the view that the current OECD treatment does not conform to the conceptual principles underpinning the IPSASs and the IPSAS 1, "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.

The Tax Gap

BC23 For some taxes, reporting entities will be aware that the amount the government is entitled to collect under the tax law is higher than the amount that will be collected, but will not be able to reliably measure the amount of this difference. The amount collected is lower due to the underground economy (or black market), fraud, evasion, non-compliance with the tax law, and error. The difference between what is legally due under the law and what the government will be able to collect is referred to as the "tax gap". Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap.

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

Services In-kind

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

Compulsory Contributions to Social Security Schemes

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

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

TABLE OF CONCORDANCE

This table accompanies, but is not part of, AASB 10XX.

This table shows how the contents of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and this Exposure Draft correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the contents may differ.

Exposure Draft paragraph	IPSAS 23 paragraph	Exposure Draft paragraph	IPSAS 23 paragraph	Exposure Draft paragraph	IPSAS 23 paragraph
1	1	41	40	82	81
2-6	none	42	41	83	82
none	2	43	42	84	83
none	3	44	43	85	84
7	4	45	44	86	85
7A	none	46	45	87	86
none	5	47	46	88	87
none	6	48	47	89	88
8	7	49	48	90	89
9	8	50	49	91	90
10	9	51	50	92	91
11	10	52	51	93	92
12	11	53	52	94	93
13	12	54	53	95	94
14	13	55	54	96	95
15	14	56	55	97	96
16	15	57	56	98	97
17	16	58	57	99	98
18	17	59	58	100	99
19	18	60	59	101	100
20	19	61	60	102	101
21	20	62	61	103	102
22	21	63	62	104	103
23	22	64	63	105	104
24	23	65	64	106	105
25	24	66	65	107	106
26	25	67	66	108	107
27	26	68	67	109	108
28	27	69	68	110	109
29	28	70	69	111	110
30	29	71	70	112	111
31	30	72	71	113	112
32	31	73	72	114	113
33	32	74	73	115	114
34	33	75	74	116	115
35	34	76	75	117	116-123
36	35	77	76	none	124
37	36	78	77	none	125
38	37	79	78		
39	38	80	79		
40	39	81	80		

PROPOSED AMENDMENTS TO OTHER STANDARDS

These proposals accompany, but are not part of, AASB 10XX.

The wording of AASB 10XX as set out in this Exposure Draft presumes that the following amendments will be made to other Standards at the same time as the approval of a Standard resulting from AASB 10XX. If approved, these amendments would have the same application date as that Standard. The amendments would be made via an amending Standard rather than as part of the principal Standard on income from non-exchange transactions.

The proposed amendments are shown here in marked-up form (new text is underlined and deleted text is struck through).

A1 Paragraph Aus10.1 of AASB 102 *Inventories* is proposed to be amended as follows:

Notwithstanding paragraph 10, in respect of not-for-profit entities, where inventories are acquired ~~at no cost, or for nominal consideration through a non-exchange transaction,~~ the their cost shall be ~~the current replacement cost~~ measured at their fair value as at the date of acquisition.

A2 Paragraph Aus15.1 of AASB 116 *Property, Plant and Equipment* is proposed to be amended as follows:

Notwithstanding paragraph 15, in respect of *not-for-profit entities*, where an asset is acquired ~~at no cost, or for a nominal cost~~ through a non-exchange transaction, the cost is its fair value as at the date of acquisition.

A3 Paragraph Aus24.1 of AASB 138 *Intangible Assets* is proposed to be amended as follows:

Notwithstanding paragraph 24, in respect of not-for-profit entities, where an asset is acquired ~~at no cost, or for a nominal cost~~ through a non-exchange transaction, the cost is its *fair value* as at the date of acquisition.

A4 Paragraph Aus20.1 of AASB 140 *Investment Property* is proposed to be amended as follows:

Notwithstanding paragraph 20, in respect of not-for-profit entities, where an investment property is acquired ~~at no cost or for nominal cost~~ through a non-exchange transaction, its cost shall be deemed to be its fair value as at the date of acquisition.

Issue, 4/09 – The amendments above are the minimum amendments to those paragraphs. AASB staff suggest that the tail of each paragraph above could also be standardised along the lines proposed for para Aus10.1 of AASB 102. That is, the paragraphs from AASB 116, 138 and 140 could conclude as follows:

“its cost shall be measured at its fair value as at the date of acquisition.”

The present differences in wording do not seem justified. Do AASB members agree with this further change?

A5 Paragraph Aus38.1 of AASB 141 *Agriculture* is proposed to be amended as follows:

Notwithstanding paragraphs 34-38, not-for-profit entities recognise government grants related to a biological asset in accordance with ~~AASB 1004 Contributions~~ AASB 10XX *Income from Non-exchange Transactions (Taxes and Transfers)*.

Further NZ proposals, 4/09 – The NZ staff propose additional amendments to NZ IFRSs, which either are not relevant to Australian Standards or arguably are not necessary. For example:

- (a) amendment of NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to prohibit application by PBEs. This is required because PBEs presently are required to comply with the disclosure requirements of NZ IAS 20. In contrast, AASB 120 has no application to NFPEs;
- (b) amendment of NZ IAS 18 *Revenue* to add a paragraph as follows: “Public benefit entities shall apply FRS-XX *Income from Non-Exchange Transactions (Taxes and Transfers)* in accounting for income arising from non-exchange transactions.” This does not seem necessary, as AASB 118 does not refer to the present AASB 1004 for requirements concerning contributions; and
- (c) the definitions of “exchange transactions” and “non-exchange transactions” are proposed to be added to NZ IAS 2, 16, 18, 38 and 40 as definitions applicable to PBEs. This does not seem necessary, since the definitions in FRS-XX/AASB 10XX would still apply.

Do AASB members agree that these amendments are not required?