

*Proposed International Public Sector Accounting
Standard*

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



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*, for publication in January 2006. This proposed International Public Sector Accounting Standard may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **June 30, 2006**. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director

International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: publicsectorpubs@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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

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

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

Due Process and Timetable

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

Background

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

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

Purpose of the Exposure Draft

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

Request for Comments

Comments are invited on any proposals in this Exposure Draft by June 30, 2006 (5 months from the date of issue). The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific issues in the Exposure Draft. Respondents are also invited to address any or all of the specific matters for comment outlined below and to provide detailed comments on any other aspects of the Exposure Draft (including materials and examples contained in the implementation guidance) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comments on the proposals to:

- (a) Exclude entity combinations that are non-exchange transactions from the scope of the Standard (see paragraph 2).
- (b) Include within the scope of the IPSAS compulsory contributions to social security schemes (e.g. health and disability insurance, aged pensions) which are in the nature of non-exchange transactions. In particular:

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- (i) Do you think that these compulsory contributions to social security schemes should be explicitly excluded from the scope?
 - (ii) Do you think that the ED gives enough guidance in respect of such compulsory contributions? If not, do you think the IPSAS should explicitly address these compulsory contributions and provide specific guidance to assist entities determine to what extent such contributions should be considered as exchange transactions? (See paragraph BC27)
- (c) Define terms as set out in paragraph 8. These definitions have been developed by the IPSASB for this IPSAS. Please identify any amendments to the definitions that you consider necessary.
- (d) Distinguish exchange and non-exchange components of non-exchange transactions. Paragraphs 11 and 12 note that these transactions may comprise two components, one of which is an exchange transaction, each component of which is recognized separately.
- (e) Include guidance to clarify that restrictions do not give rise to the recognition of a liability on initial recognition of the transferred asset (paragraph 20). Do you agree that restrictions do not give rise to liabilities on initial recognition of the transferred asset?
- (f) Require recognition of assets when resources are transferred or when the reporting entity has an enforceable claim to resources that are to be transferred (see paragraphs 33 – 34 and paragraph 80). The ED notes that before a claim to a resource is enforceable, the resource does not meet the definition of “control of an asset” because the recipient reporting entity cannot exclude or regulate the access of the transferor to the resource.
- (g) Measure assets acquired in a non-exchange transaction at their fair value on initial recognition and amend IPSAS 12, “Inventories”, IPSAS 16, “Investment Property” and IPSAS 17, “Property, Plant and Equipment” to be consistent with this requirement (see paragraphs 38 – 39 and the Appendix). IPSAS 12 currently requires inventory to be initially recognized at cost, and IPSASs 16 and 17 currently require that where assets are acquired for no cost or a nominal cost, their cost is their fair value as at the date of acquisition.
- (h) Require that a liability be recognized in respect of an asset transferred subject to conditions upon initial recognition of the transferred asset (paragraph 50). When the condition has been satisfied the liability is reduced, or derecognized, and revenue recognized. Alternatively, do you consider that the IPSAS should only require the recognition of a liability when it is more likely than not that the condition will not be satisfied (see paragraph BC11)? In addition, are you of the view that the requirements

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relating to the recognition of a liability in respect of a condition applies equally to depreciable and non-depreciable assets?

- (i) Require liabilities related to inflows of resources to be measured according to the requirements of IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” (paragraph 52).
- (j) Require a non-exchange transaction that gives rise to the recognition of an asset to also give rise to the recognition of revenue to the extent that a liability is not recognized (paragraph 54). Are there any non-exchange transactions in which it would be appropriate to initially recognize the gross inflow of economic benefits or service potential represented by the asset as revenue even if a liability is also recognized, with the simultaneous recognition of an expense for the liability?
- (k) Require a reporting entity to recognize liabilities in respect of advance receipts related to taxes (see paragraph 67) and advance receipts related to transfers (see paragraph 105).
- (l) Not permit the netting of expenses paid through the tax system (see paragraphs 72 – 76) against taxation revenue. Instead such expenses must be recognized separately on a gross basis. The ED distinguishes between expenses paid through the tax system and tax expenditures, and notes that tax expenditures are foregone revenue, not expenses.
- (m) Permit recognition of services in-kind that satisfy the recognition requirements (see paragraphs 99 – 103) and require disclosure of the nature and type of services in-kind received, whether recognized or not (paragraph 107/108).
- (n) Provide entities a five year period in which to conform their accounting policies in respect of taxation revenue to the requirements of this Standard. (See paragraphs 115 – 122). Do you believe that transitional provisions should be provided in respect of other non-exchange transactions?

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD IPSAS XX**

**REVENUE FROM NON-EXCHANGE TRANSACTIONS
(INCLUDING TAXES AND TRANSFERS)**

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<p>International Public Sector Accounting Standard XX, “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” is set out in paragraphs 1 –124. All the paragraphs have equal authority except as noted otherwise. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the “Preface to International Public Sector Accounting Standards”. IPSAS 1, “Presentation of Financial Statements” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.</p>

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

REVENUE FROM NON-EXCHANGE TRANSACTIONS (INCLUDING TAXES AND TRANSFERS)

Objective

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

Scope

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to an entity combination that is a non-exchange transaction.**
3. **This Standard applies to all public sector entities other than Government Business Enterprises.**
4. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in IPSAS 9, "Revenue from Exchange Transactions". While revenues received by public sector entities arise from both exchange and non-exchange transactions, the majority of revenue of governments and other public sector entities is typically derived from non-exchange transactions such as:
 - (a) Taxes; and
 - (b) Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind.
5. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. An entity combination occurs when two or more reporting entities are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another entity, but may result in a new or existing entity acquiring all the assets and liabilities of another entity. The International Public Sector Accounting Standards Board (IPSASB) has not addressed entity combinations and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity

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combination, which is a non-exchange transaction, will give rise to revenue or not.

Government Business Enterprises

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

Definitions

7. **The following terms are used in this Exposure Draft with the meanings specified. These terms have been defined in other IPSASs.**

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

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

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

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

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

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

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 or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

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

Non-Exchange Transactions

9. In some transactions there is an exchange of approximately equal value. These are exchange transactions, and are addressed in other IPSASs.
10. In other transactions, such as taxes or transfers, 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.
11. There are a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognized separately.
12. There are also additional transactions whose substance rather than form must be examined to determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

Revenue

13. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

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14. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant.

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 IPSAS. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls.
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 or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).
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. IPSAS 19, "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 or service potential of the asset as specified or return future economic benefits or service potential to the transferor, in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties or else to return to the transferor future economic benefits or service

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potential. Therefore, when a recipient initially recognizes 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 or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity's financial statements will still recognize the gross amounts in its financial statements, that is, the entity will recognize a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities and or revenue for the new transfer.

Restrictions on Transferred Assets

20. Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise. Such actions may result in the entity being directed to 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 or service potential is enforceable and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have

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occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is therefore a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.

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 or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form, and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.

Example (This example is not authoritative)

The following is an example of a stipulation which specifies the return of a transferred asset if the terms of the transfer are breached, but does not satisfy the definition of a condition, because in substance there is no performance obligation imposed by the terms of the transfer.

A national government makes a cash transfer to a state government social housing entity specifying that it increases the stock of social housing by an additional 1,000 units over and above any other planned increases, uses the cash transfer in other ways to support its social housing objectives or return the cash to the national government. In this case, the transfer term is defined so broadly as to not impose on the recipient a performance obligation – the performance obligation is imposed by the operating mandate of the entity, not by the terms of the transfer.

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

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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 recognized 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 IPSAS 9, “Revenue from Exchange Transactions”.

Taxes

27. Taxes are the major source of revenue 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 revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation. Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.
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.

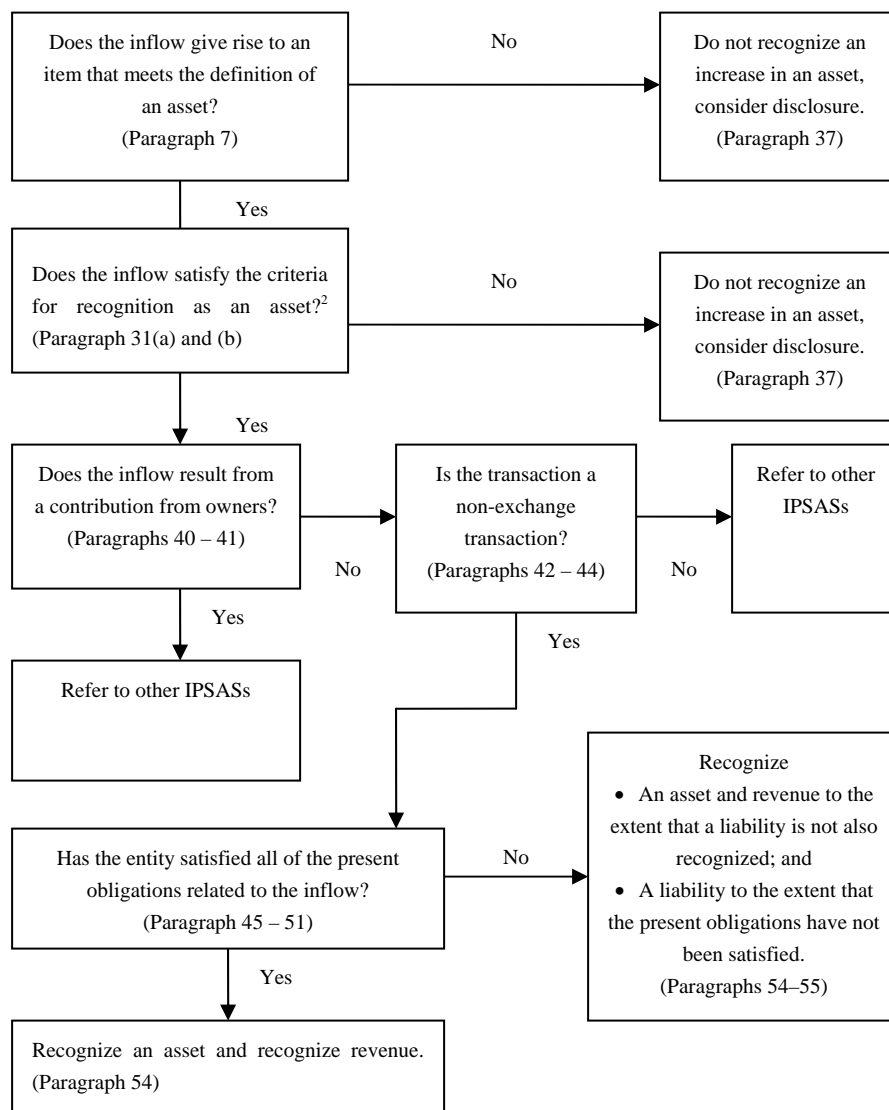
Analysis of the Inflow of Resources from Non-Exchange Transactions

30. An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognize as a liability. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyze non-exchange transactions to determine which elements of general purpose financial statements will be recognized as a result of the transactions. The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether revenue arises.¹ This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 31 to 114.

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

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

Recognition of Assets

31. **An inflow of resources from a non-exchange transaction that meets the definition of an asset shall be recognized as an asset when, and only when:**
 - (a) **It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and**
 - (b) **The fair value of the asset can be measured reliably.**
32. To recognize assets arising as a result of a non-exchange transaction, all the elements in paragraph 31 are required to be satisfied. To meet the definition of an asset requires that the entity obtain control of resources as a result of a past event. In addition, it must be probable that the future economic benefits or service potential will flow to the entity, and that the fair value of the asset can be measured reliably.

Control of an Asset

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

Past Event

35. Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore the past event which gives rise to control of an asset may be a purchase, a

taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that 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 appropriates funds to a public sector entity (reporting entity), the appropriation is enforceable and the government has a history of transferring appropriated resources, it is probable that the inflow will occur, notwithstanding that the appropriated funds have not been transferred at 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 IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”).

Measurement on Initial Recognition

38. **An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.**
39. Assets are measured at their fair value as at the date of acquisition. IPSAS 12, “Inventories”, IPSAS 16, “Investment Property” and IPSAS 17, “Property, Plant and Equipment” require assets acquired through non-exchange transactions to be measured at their fair value as at the date of acquisition.¹

Contributions from Owners

40. Contributions from owners are defined in paragraph 7. 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 41 indicates the form that contributions from owners may take. If, despite

¹ This Exposure Draft proposes consequential amendments to IPSASs 12, 16 and 17, which will amend those IPSASs to require assets acquired in a non-exchange transaction to be initially measured at the fair value as at the date of acquisition (see Appendix). IPSAS 12 does not currently address inventory acquired through non-exchange transactions. IPSAS 16 and 17 currently require that where an asset is acquired for no cost or a nominal cost, its cost is its fair value as at the date of acquisition.

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the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan.

41. 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 controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;
 - (b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient which can be sold, transferred or redeemed; or
 - (c) The issuance, in relation to the contribution, of equity instruments which can be sold, transferred or redeemed.

Exchange and Non-Exchange Components of Non-Exchange Transactions

42. Paragraphs 43 and 44 below address circumstances in which an entity gains control of resources embodying future economic benefits or service potential other than by contributions from owners.
43. 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.
44. Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognizes the exchange component according to the principles and requirements of other IPSASs. The non-exchange component is recognized according to the principles and requirements of this Standard.

Present Obligations Recognized as Liabilities

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

- (b) **A reliable estimate can be made of the amount of the obligation.**

Present Obligation

46. 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.
47. In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to laws, regulation or other binding arrangements that impose stipulations that they be used for particular purposes. For example:
- (a) Taxes, the use of which is limited by laws or regulations to specified purposes;
 - (b) Transfers, established by a binding arrangement that includes conditions:
 - (i) From national governments to provincial, state or local governments;
 - (ii) From state/provincial governments to local governments;
 - (iii) From governments to other public sector entities;
 - (iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and
 - (v) From donor agencies to governments or other public sector entities.
48. In the normal course of operations, a public sector entity may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognized until the taxable event occurs.
49. If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognizes a liability for an advance receipt until such time as the arrangement becomes binding.

Conditions on a Transferred Asset

50. **Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognized in accordance with paragraph 45.**

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51. Stipulations are defined in paragraph 8. Paragraphs 15 – 26 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyzes any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

Measurement of Liabilities on Initial Recognition

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

Recognition of Revenue from Non-Exchange Transactions

54. **An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.**
55. **As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.**
56. When an entity recognizes an increase in net assets as a result of a non-exchange transaction, it recognizes revenue. If it has recognized a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.
57. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognized as goods or services are provided.

Measurement of Revenue from Non-Exchange Transactions

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

date of initial recognition of assets arising from the non-exchange transaction.

59. When, as a result of a non-exchange transaction, an entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured in accordance with paragraph 38, unless it is also required to recognize a liability. Where a liability is required to be recognized it will be measured in accordance with the requirements of paragraph 52, and the amount of the increase in net assets, if any, recognized as revenue. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognized as revenue.

Taxes

60. **An entity shall recognize 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 or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.
62. Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them. For example, where a state taxation agency collects income tax for the state government and several city governments, it does not recognize revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.
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 or service potential by the entity

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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 47, some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisfied and the liability is reduced. However, in most cases taxes, levied for specific purposes are not expected to give rise to a liability because the specific purposes amount to restrictions not conditions.

The Taxable Event

66. Similar types of taxes are levied in many jurisdictions. The reporting entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:
 - (a) Income tax is the earning of assessable income during the taxation period by the taxpayer;
 - (b) Value added tax is the undertaking of taxable activity during the taxation period by the taxpayer;
 - (c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
 - (d) Customs duty is the movement of dutiable goods or services across the customs boundary;
 - (e) Death duty is the death of a person owning taxable property; and
 - (f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Advance Receipts of Taxes

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 recognized as an asset and a liability (advance receipts) because the past event that gives rise to the entity’s

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control of the asset has not occurred, notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

68. Paragraph 38 requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform with the requirements of paragraph 38. The accounting policies for the measurement of 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.
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 revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognized being different from the amounts determined in subsequent

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reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with IPSAS 3, “Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies”.

71. In some cases the assets arising from taxation transactions and the related revenue cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognized in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of death duty due in respect of a large deceased estate because it includes a number of valuable antiques and artworks, which require specialist valuations. Consequently the recognition criteria may not be satisfied until payment is received or receivable.

Expenses Paid Through the Tax System and Tax Expenditures

72. **Taxation revenue 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 to taxpayers benefits, which would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer’s bank account, or settling another account on behalf of the taxpayer. For example, a government may pay part of residents’ health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual’s tax liability, making a payment by check or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently this amount is an expense of the government and should be recognized separately in the statement of financial performance. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.
74. **Taxation revenue shall not be grossed up for the amount of tax expenditures.**
75. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. For example, in some jurisdictions, home owners are permitted to deduct mortgage interest and property taxes from their gross income when calculating tax assessable income. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the

concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue or expenses of the taxing government.

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. IPSAS 1, “Presentation of Financial Statements”, prohibits the offsetting of items of revenue and expense unless permitted by another Standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Transfers

77. **Subject to paragraph 99, an entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.**
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 or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity decreases the carrying amount of the liability.
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 revenue be recognized. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.
81. Transfers of resources that satisfy the definition of “contributions from owners” will not give rise to revenue. Agreements that specify that the

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entity providing resources is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or 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.

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 IPSAS 9, "Revenue from Exchange Transactions".
83. An entity analyzes all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets

84. As required by paragraph 38, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition in accordance with the requirements of IPSASs 12, 16 and 17.¹ Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets will also be measured at fair value as at the date of acquisition in accordance with paragraph 38 and the appropriate accounting policy.

Debt Forgiveness and Assumption of Liabilities

85. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.
86. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for

¹ Appendix 1 proposes amendments to IPSASs 12, 16 and 17 to require that on initial recognition inventories, investment property and property, plant and equipment acquired in a non-exchange transaction be measured at fair value as at the date of acquisition.

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recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

87. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 40 – 41.
88. Revenue 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 or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some jurisdictions law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.
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 recognized as a liability. As such, fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 31. As noted in paragraph 13, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Fines are measured at the fair value of the resources received or receivable.

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 or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.
92. Bequests which satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is

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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 any entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 99 - 103 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 recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.
97. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.
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 recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example,

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current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

Services In-kind

99. **An entity may, but is not required to, recognize services in-kind as revenue and as an asset.**
100. Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue; and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.
101. Public sector entities may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest, for example:
- (a) Technical assistance from other governments or international organizations;
 - (b) Persons convicted of offenses may be required to perform community service for a public sector entity;
 - (c) Public hospitals may receive the services of volunteers;
 - (d) Public schools may receive voluntary services from parents as teachers' aides or as board members; and
 - (e) Local governments may receive the services of volunteer fire fighters.
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 107, however, 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 public sector entities, the services provided by volunteers are not material in amount, but may be material by nature.

Pledges

104. Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognized as a gift or donation, in accordance with paragraphs 94 – 98 above. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.”

Advance Receipts of Transfers

105. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the past event which makes the transfer arrangement binding has occurred, and all other obligations under the agreement are fulfilled. When that past event occurs the liability is discharged and revenue is recognized. Where a transfer, such as a gift or donation, is not the subject of an agreement, revenue is recognized when the transferred resources are recognized as assets.

Disclosures

106. **An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:**
 - (a) **The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:**
 - (i) **Taxes, showing separately major classes of taxes; and**

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- (ii) **Transfers, showing separately major classes of transfer revenue.**
 - (b) **The amount of receivables recognized in respect of non-exchange revenue.**
 - (c) **The amount of liabilities recognized in respect of transferred assets subject to conditions.**
 - (d) **The amount of assets recognized that are subject to restrictions, and the nature of those restrictions.**
 - (e) **The existence and amounts of any advance receipts in respect of non-exchange transactions.**
107. **An entity shall disclose in the notes to the general purpose financial statements:**
- (a) **The accounting policies adopted for the recognition of revenue from non-exchange transactions.**
 - (b) **For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured.**
 - (c) **For major classes of taxation revenue 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, donations showing separately major classes of goods in-kind received.**
108. The nature and type of major classes of services in-kind received, including those not recognized. The disclosures required by paragraphs 106 and 107 assist the reporting entity to satisfy the objectives of financial reporting, as set out in IPSAS 1, "Presentation of Financial Statements", which is to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.
109. Disclosure of the major classes of revenue assists users to make informed judgments about the entity's exposure to particular revenue streams.
110. Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognized 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 106(c).

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111. Paragraph 106 (e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgements about the entity's future revenue and net asset position.
112. As noted in paragraph 69, in many cases an entity will be able to reliably measure assets and revenue arising from taxation transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgements about the entity's future revenue and net asset position.
113. Paragraph 107 (d) requires entities to make disclosures about the nature and type of major classes of gifts, donations and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgements about the entity's future revenue and net asset position.
114. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognize these services in-kind and measure them at their fair value. Paragraph 107 (e) requires an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognized or not. This will 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.

Transitional Provisions

115. **Entities are not required to change their accounting policies in respect of the recognition and measurement of taxation revenue for reporting periods beginning on a date within five years following the date of first adoption of this Standard.**
116. **Changes in accounting policies in respect of the recognition and measurement of taxation revenue made before the expiration of the five year period permitted in paragraph 115, shall only be made to**

better conform the accounting policies with this Standard. Entities may change their accounting policies in respect of taxation revenue, on a class by class basis.

117. **When an entity takes advantage of the transitional provision in paragraph 115, that fact shall be disclosed. The entity shall also disclose which classes of taxation revenue are recognized in accordance with this Standard, which have been recognized under an accounting policy that is not consistent with the requirements of this Standard, and the entity's progress towards implementation of accounting policies that are consistent with this Standard. The entity shall disclose its plan for implementing accounting policies that are consistent with this Standard.**
118. **When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the classes of taxation revenue previously recognized on another basis, but which are now recognized in accordance with this Standard, shall be disclosed.**
119. Entities may adopt accounting policies for the recognition of taxation revenue that do not comply with the provisions of this Standard. The transitional provision is intended to allow entities a period to develop reliable models for measuring taxation revenue. The transitional provisions allow entities to apply this Standard incrementally to different classes of taxation revenue. For example, entities may be able to recognize and measure property taxes in accordance with this Standard from the date of application, but may require five years to fully develop a reliable model for measuring income tax revenue.
120. When an entity takes advantage of the transitional provisions in this Standard, its accounting policies for each class of taxation revenue may only be changed to better conform to this Standard. An entity may retain its existing tax accounting policies until it decides to fully apply the provisions of this Standard or until the transitional provision expires, whichever is earlier, or it may change them to apply the requirements of this Standard progressively. An entity may, for example, change from a policy of recognition on a cash basis, to a modified cash or modified accrual basis before it fully applies this Standard.
121. The disclosure requirements of paragraph 117 assist users to track the progress of the entity in conforming its accounting policies to the requirements of this IPSAS during the reporting periods in which the transitional provisions apply. This disclosure facilitates the objective of full accountability and transparency.
122. When an entity takes advantage of the transitional provision, it is required to disclose its plan for implementing tax accounting policies that are consistent with this Standard so that users can assess the performance of the

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

Effective Date

123. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after Month XX, XXXX (twelve months from the date of issue). Earlier application is encouraged. If an entity applies this Standard for periods beginning before Month XX, XXXX, it shall disclose that fact.**
124. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Amendments to Other IPSASs

IPSAS 12, “Inventories”

- A1. In IPSAS 12, “Inventories”, the definitions of “exchange transactions” and “non-exchange transaction” are to be inserted into paragraph 6.
- A2. In IPSAS 12 the following paragraph is to be inserted between paragraphs 11 and 12:
 - 11A. **Where inventory is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.**
- A3. In IPSAS 12, the following paragraph is to be inserted between paragraphs 24 and 25:

Inventory Acquired Through a Non-Exchange Transaction

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

IPSAS 16, “Investment Property”

- A4. In IPSAS 16, “Investment Property”, the definitions of “exchange transactions” and “non-exchange transaction” are to be inserted into paragraph 6.
- A5. In IPSAS 16, paragraphs 23 and 28 are to be amended as follows:
 - 23. **Where an investment property is acquired at no cost, or for a nominal cost through a non-exchange transaction, its cost is its fair value as at the date of acquisition.**
 - 28. An investment property may be acquired through a non-exchange transaction ~~be gifted or contributed to the entity~~. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired ~~for no cost, or for a nominal cost, through~~ through a non-exchange transaction by the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

IPSAS 17, “Property, Plant and Equipment”

- A6. In IPSAS 17, “Property, Plant and Equipment”, the definitions of “exchange transactions” and “non-exchange transaction” are to be inserted into paragraph 12.
- A7. In IPSAS 17, paragraphs 23 and 24 are to be amended as follows:
- 23. Where an asset is acquired at no cost, or for a nominal cost through a non-exchange transaction, its cost is its fair value as at the date of acquisition.**
24. An item of property, plant and equipment may be ~~gifted or contributed to the entity~~ acquired through a non-exchange transaction. For example, land may be contributed to a local government by a developer at nil or nominal consideration, to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired ~~at nil or nominal consideration through~~ through a non-exchange transaction by the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

Implementation Guidance

Measurement of Revenue from Non-Exchange Transactions — Examples

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

Example 1: Income Tax (Paragraph 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 assessable income by taxpayers. At the end of the reporting period, the government recognizes assets and revenue in respect of personal income tax on the income earned during the reporting period to the extent that it can reliably measure it. Assets and revenue will also be recognized in respect of income taxes on income earned in prior periods, but which did not meet the definition of, or satisfy the criteria for recognition as, an asset until the current reporting period.

Example 2: Measurement of Taxation Revenue (Paragraphs 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 revenue should be recognized in the reporting period in which the taxable event occurred, that is, the earning of taxable income. As the tax administration system does not enable the government to directly measure income tax receivable until after its general purpose financial statements are issued, the government develops a model to indirectly measure income taxation revenue receivable. The government uses the income tax collection

history it has in the taxation statistics, which it compares to other observable phenomena to develop a reliable model. Other phenomena can include other economic statistics, such as gross domestic product, financial phenomena such as income tax installments deducted by employers, sales tax collections (if it levies such a tax) and banking statistics collected by the central bank. 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 Standards on Auditing.

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

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 recognizes assets and revenue in the general purpose financial statements of the reporting period in which the taxable activity takes place, or later, as soon as it can reliably measure the tax receivable.

Example 4: Goods and Services Tax (Paragraph 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 recognizes assets and revenue in the general purpose financial statements of the reporting period in which the

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

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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 of 10% on all imports of goods. The duties vary depending on the type of goods imported, and are set at levels to ensure that domestically produced goods are cheaper in the retail market. Imported goods are held in bonded warehouses until the importer pays the duty. Importers are required to make import declarations to the customs department, and pay the duty immediately. Most importers submit these declarations electronically before the goods arrive, and make electronic funds transfers to the customs department when the goods are unloaded from ships or aircraft, or as trains or trucks pass the customs boundary.

IG11. The government controls a resource – duty receivable – when the taxable event occurs, which is the movement of goods across the customs boundary. The government recognizes assets and revenue in the general purpose financial statements of the reporting period in which the goods move across the boundary, or later, as soon as it can reliably measure the duty receivable.

Example 6: Death Duties (Paragraph 66)

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

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

Example 7: Property Tax (Paragraph 66)

IG14. A local government (reporting entity) levies a tax of 1 per cent of the assessed value of all property within its jurisdiction. The government's reporting period is July 1 to June 30. The tax is levied on July 31, with notices of assessment being sent to property owners in July, and payment

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due by August 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of three percent per month of the amount outstanding. The tax law permits the government to seize and sell a property to collect outstanding taxes.

- IG15. The government controls a resource – property taxes receivable – when the taxable event occurs, which is passing of the date on which the taxes are levied – July 31. The government recognizes assets and revenue in the general purpose financial statements of 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 recognizes an increase in an asset (cash in bank) and an increase in a liability (advance receipts).

Example 9: Transfer to Government Department (Paragraphs 77 - 83)

- IG18. On November 1, 20X1 the legislature passes legislation that provides transfer of CU100 million to the Department of Education (reporting entity) for the year January 1, 20X2 to December 31, 20X2. The bill becomes an act (a law) on January 1, 20X2, when it is proclaimed by the government. The government can withdraw the bill before proclamation, and has done so on numerous occasions as circumstances change. The act includes a detailed budget for the Department of Education that requires that the Department only spend the appropriated amount as authorized or return it to the government. The government does not operate a central bank account – all government entities operate their own accounts at the central bank from which they authorize their own payments. Cash is transferred to the reporting entity's bank account when the bill is proclaimed.
- IG19. The Department of Education recognizes the transfer amount as an asset when it obtains control over those resources, which is when the bill is

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proclaimed, on January 1, 20X2. The stipulation to spend money only according to the approved budget is a condition, and a liability should be recognized in respect of this condition. The liability is discharged as the condition is satisfied, that is when the department spends according to its budget. Assets, liabilities and revenue relating to the appropriation are recognized in the general purpose financial statements of the first reporting period that ends after January 1, 20X2.

Example 10: Grant to Another Level of Government for General Purposes (Paragraphs 15 - 17, 77)

IG20. 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.

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

Example 11: Transfer to a Public Sector 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 recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17, "Property, Plant and Equipment". The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

Example 12: Grant to Another Level of Government with Conditions (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

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percent for new railroad or tramway systems, and 20 percent for rolling stock purchases and improvements. Under the terms of the grant, the money can only be used as stipulated, and the provincial government is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the national government.

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

Example 13: Research Grant (in Substance Exchange Transaction) (Paragraph 9)

IG26. A large corporation that makes cleaning products (transferor) gives money to a public university (reporting entity) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation stipulates that the research results are to be shared with it before being announced to the public and that it has the right to apply for a patent on the compound.

IG27. This is an exchange transaction. In return for the “grant”, the university provides research services and an intangible asset (the right (a future economic benefit) to profit from the research results.) IPSAS 9, “Revenue from Exchange Transactions” and the relevant international or national accounting standard dealing with intangible assets apply to this transaction.

Example 14: Debt Forgiveness (Paragraphs 85 - 88)

IG28. The national government (transferor) had lent a local government (reporting entity) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The national government writes to the local government and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

IG29. When it receives the letter and documentation from the national government, which communicates this decision, the local government derecognizes the liability for the loan and recognizes revenue in the statement of financial performance of the reporting period in which the liability is derecognized.

Example 15: Purchase of Property at a Subsidized Price (Paragraphs 9 – 12, 42 - 44)

- IG30. A public school (reporting entity) purchases land with a fair value of CU100,000 for CU50,000 from a local government. The reporting entity concludes that the non-exchange transaction comprises two components, an exchange component and a non-exchange component. One component involves the purchase of a half share in the land for CU50,000, the other component is a non-exchange transaction that transfers the remaining half share of the land to the school.
- IG31. In its general purpose financial statements for the reporting period in which the transaction takes place, the public school recognizes the land at CU100,000, (a cost of CU50,000 and a transfer of CU50,000) a reduction in its asset “cash” of CU50,000 and revenue from a non-exchange transaction of CU50,000 (the fair value of the increase in net assets recognized).

Example 16: Proposed Bequest (Paragraphs 91 - 93)

- IG32. A 25-year-old recent graduate (transferor) of a public university names the university (reporting entity) as the primary beneficiary in her will. This is communicated to the university. The graduate is unmarried and childless and has an estate currently valued at CU500,000.
- IG33. The public university does not recognize any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transferor), which has not occurred.

Example 17: Pledge – Television Appeal for Public Hospital (Paragraph 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 recognize any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources, therefore, it cannot recognize the asset or the related revenue until the donation is binding on the donor.

Example 18: Fine (Paragraph 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) recognizes a receivable and revenue of CU50 million in the general purpose financial statements of reporting period in which the fine is imposed.

Example 19: External Assistance Recognized (Paragraph 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 recognizes an asset (a receivable) for the amount of CU5 million, and revenue in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There are no conditions attached to this agreement that require the entity to recognize a liability.

Example 20: Revenue of Aid Agency (Paragraphs 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:

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	(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 recognizes an asset of CU15 Million for the amount of transfers received before the start of 20X8, because it has control over an asset when the transfer is received and deposited in its bank account. An equivalent CU15 Million liability, revenue received in advance, is recognized.
- IG43. In 20X8, Green Aid Agency recognizes CU53 million of revenue from transfers. In the notes to its general purpose financial statements, it discloses that CU55 Million was invoiced and an allowance for doubtful debts of CU2 Million was established.

Example 21: Goods In-kind Recognized as Revenue (Paragraphs 38, 94 - 98)

- IG44. Transferor Government A has an arrangement with the public sector reporting entity, Aid Agency Inc., whereby Government A provides rice to meet its promised financial commitments to Aid Agency Inc. Based on the variability in Government A's past performance in meeting its commitments, Aid Agency Inc. has adopted an accounting policy of not recognizing the asset and revenue until receipt of the promised rice. Government A promises to provide Aid Agency Inc. with CU300,000 during 20X5. Government A subsequently transfers 1,000 metric tons of rice to Aid Agency Inc. on January 12, 20X5. The transfer of the rice takes place in one of the ports of the transferor nation. According to the details of the funding agreement between Aid Agency Inc. and Government A, the rice is valued at the previously agreed amount of CU300 per ton, with the result that the transfer of 1,000 metric tons of rice fully discharges Government A's financial commitment of CU300,000. During February and March 20X5, Aid Agency Inc. provides the rice to a network of local distribution agencies in Nations B and C in order to meet the needs of starving people.
- IG45. On January 12, 20X5 the market price of 1,000 metric tons of rice was: CU280,000 in Government A's nation; CU250,000 in the international

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

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

Example 22: Disclosure of Services In-kind not Recognized (Paragraphs 99 - 103, 107108)

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

IG48. The hospital analyzes the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care

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facilities in the region. The hospital does not recognize the services in-kind provided by the volunteers. The hospital discloses the number of hours of service provided by volunteers during the reporting period and a description of the services provided.

Example 23: Contribution from Owners (Paragraphs 40 - 41)

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

IG50. When the amendment to the charter becomes binding TCEGS will recognize an increase in assets of CU50 million (cash or contribution from owners receivable) and a contribution from owners of CU50 million.

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 analyzes the transaction and concludes that although the terms of the grant agreement are enforceable, because the

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

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**Example 25: Disclosures Made in the Financial Statements of Government A
(Paragraph 106 – 107)**

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

Statement of Financial Performance

	20X2	20X1
	(CU',000)	(CU',000)
Revenue from Non-Exchange Transactions		
Taxation Revenue		
Income Tax Revenue (note 4)	XXX	XXX
Goods and Services Tax (note 5)	XXX	XXX
Estate Taxes (note 6)	XX	XX
Transfer Revenue		
Transfers from Other Governments	XXX	XXX
Gifts, Donations, Goods In-kind (note 13)	X	X
Services In-kind (note 14)	X	X

Statement of Financial Position

Current Assets		
Cash at Bank	XX	XX
Taxes Receivable		
Goods and Services Taxes Receivable (note 5)	XX	XX
Transfers Receivable		
Transfers receivable from Other Governments (note 7)	X	X
Non-Current Assets		
Land (notes 11)	XXX	XXX
Plant and Equipment (notes 9b and 10b)	XX	XX
Current Liabilities		
Liabilities recognized under transfer arrangements (note 10)	XX	XX
Advance Receipts		
Taxes	X	X
Transfers	X	X

Notes to the Financial Statements:

Accounting Policies

Recognition of Revenue from Non-Exchange Transactions

1. Assets and revenue arising from taxation transactions are recognized in accordance with the requirements of IPSAS XX, "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)". However, the Government takes advantage of the transitional provisions in that Standard in respect of income taxes and estate taxes.

Apart from income taxes and estate taxes, assets and revenue arising from taxation transactions are recognized in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset. Income taxes and estate taxes are recognized in the period in which payment for taxation is received (see notes 6 and 7).

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

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

Taxes

4. Income tax revenue is measured at the nominal value of cash, and cash equivalents, received during the reporting period. The Government is currently developing a statistical model for measuring income tax revenue on an accruals basis. This model uses taxation statistics compiled since 19X2 as well as other statistical information including average weekly earnings, gross domestic product and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended 20X5. The Government does not recognize any amount in respect of income taxes receivable.

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5. Assets and revenue accruing from goods and services tax is initially measured at the fair value of assets accruing to the government during the reporting period, principally cash, cash equivalents and goods and services tax receivable. The information is compiled from the goods and services tax returns submitted by taxpayers during the year, and other amounts estimated to be due to the government. Taxpayers have a high compliance rate and a low error rate, using the electronic return system established in 20X0. The high compliance and low error rates have enabled the Government to develop a reliable statistical model for measuring the revenue accruing from the tax.

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

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

Transfer Revenue

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

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

8. The Government is unable to directly measure the assets arising from income tax during the period in which all taxpayers earn income and is, therefore, taking advantage of the transitional provisions of IPSAS XX, "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)" to develop model to indirectly measure taxation revenue in the period in which taxpayers earn income. The government estimates that it

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will be able to reliably measure income tax on an accruals basis using the model for the reporting period ending December 31, 20X4.

9. In respect of estate taxes, due to current high levels of non-compliance with the law the government is unable to measure the amount of assets and revenue accruing in the period in which persons owning taxable property die. The government therefore recognizes estate taxes when it receives payment for the tax. The tax department is continuing work to develop a reliable method of measuring the assets receivable and revenue in the year in which the taxable event occurs.

Liabilities Recognized in Respect of Transfers

10. At December 31, 20X2, the Government recognized a liability of CUXX,000 related to a transfer to it conditional upon it building a public hospital. As at December 31, the Government had received a cash payment, however, construction of the hospital had not commenced, although tenders for construction were called for on November 30, 20X2.

Assets Subject to Restrictions

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

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

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

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Government on condition that it be used by the education department or be returned to Government C.

Services In-Kind

15. Hospitals controlled by the government received medical services in-kind from medical practitioners as part of the medical profession's organized volunteer program. These services in-kind are recognized as revenue and expenses in the statement of financial performance at their fair value as determined by reference to the medical profession's published schedule of fees.
16. Hospitals, schools and art galleries controlled by the government also received support from volunteers as part of organized programs for art gallery greeters and guides, teachers' aides and hospital visitor guides. These volunteers provide valuable support to these entities in achieving their objectives; however the services provided cannot be reliably measured as there are no equivalent paid positions available in the local markets, and in the absence of volunteers, the services would not be provided. The government does not recognize these services in the statements of financial position or financial performance.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed IPSAS XX.

- BC1. This Basis for Conclusions summarizes the International Public Sector Accounting Standards Board's considerations in reaching the conclusions in ED XX, "Revenue from Non-Exchange Transactions (Including 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.
- BC2. In developing this ED, 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 preempt the outcome of the IASB's due process and anticipate changes to IFRSs. In addition, given the significance of non-exchange revenue to many public sector entities, the IPSASB does not consider that it would be appropriate to defer issuance of this ED 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. Currently, however, there is no IPSAS that adequately addresses these types of transaction 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 analysed those comments and began drafting this Exposure Draft (ED) of an IPSAS.

Approach

BC6. This proposed 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 proposed 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 view 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 proposed 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. The respondents to the ITC overwhelmingly supported the adoption of such an approach.

Entity Combinations

BC7. This Proposed 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. The ITC did not exclude from its scope business combinations and respondents did not comment on this aspect of the scope of any proposed Standard.

Monetary and Non-Monetary Assets

BC8. This proposed 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 ITC included the Steering Committee’s preliminary view that monetary and non-monetary assets should not be treated differently. Respondents to the ITC accepted this view of the Steering Committee. 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

BC9. This proposed 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 proposed Standard reflects the view that stipulations, conditions and restrictions must be enforceable to be effective. The ITC also reflected the principle that terms 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 deferment of revenue recognition, or the disclosure of restrictions that have no substance. The respondents to the ITC accepted this principle and it has been endorsed by the IPSASB.

Stipulations - Conditions

BC10. This proposed 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. This was proposed in the ITC and the majority of respondents agreed with the proposal.

BC11. 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

BC12. This proposed 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 proposed 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. The ITC raised this issue, and the majority of the respondents agreed that restrictions do not meet the definition of a liability or satisfy the requirements for recognition as a liability.

Stipulations – Time Requirements

BC13. In the public sector many transfers are made with stipulations that the assets transferred be used within a particular period. The IPSASB therefore considered whether “time requirements” should be defined as a separate class of stipulation and whether requirements should be specifically inserted for time requirements. The ITC included a definition of “time requirements” and related preliminary views and commentary that does not appear in this ED. Respondents to the ITC generally supported the view that an entity should recognize a liability in respect of time requirements. The IPSASB concluded, however, that time requirements may operate as either conditions on transferred assets or restrictions on transferred assets, dependent upon the terms of agreements. It would therefore not be in accordance with the “asset and liabilities” approach, which underpins this proposed Standard, to define time requirements separately and include requirements separate to those for conditions on transferred assets and restrictions on transferred assets.

Transactions with Exchange and Non-Exchange Components

BC14. This proposed 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. The ITC raised this issue and the majority of respondents agreed that exchange and non-exchange components should be recognized separately.

Contributions from Owners

BC15. This proposed Standard includes the definition of “contributions from owners” in paragraph 7 and identifies examples of some types of documentation that may evidence contributions from owners in the public sector (paragraph 41). 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 proposed 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. The guidance in this proposed Standard is consistent with the view expressed in the ITC, which was supported by the majority of respondents to the ITC.

Measurement of Assets

BC16. This proposed Standard requires that assets acquired through non-exchange transactions be initially measured at their fair value as at the date of acquisition. This was proposed in the ITC and supported by a majority of respondents to the ITC. The IPSASB 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 also proposes a consequential amendment to IPSAS 12, "Inventories" and IPSASs 16 and 17 to fully align those IPSASs with the requirements proposed by this ED.

Entity Bank Accounts

BC17. This proposed Standard adopts 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 proposed 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. This principle was explicitly stated in the ITC, and the majority of respondents accepted the principle.

BC18. Some argue that the entity will not always control all money deposited in its bank account because it cannot fully deploy those monies for its own benefit, and therefore that the entity should only recognize as an asset the amount that it has complete freedom to use in the pursuit of its objectives. IPSASB rejected this because at the very least the entity will benefit from the money in its account by earning interest, or by avoiding paying interest on an overdrawn account.

Measurement of Liabilities

BC19. This proposed 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” and was referred to in the ITC. Respondents to the ITC accepted this principle. 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 Events

BC20. This proposed Standard defines a “taxable event” as the past event that the government, legislature or other authority has determined to be subject to taxation. The proposed 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. This view was proposed in the ITC, and accepted by the respondents to the ITC. 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

BC21. This proposed 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 ITC expressed the view that advance receipts of taxes particularly, are no different to other advance receipts and that a liability will be recognized until the taxable event occurs. The 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

BC22. This proposed 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 proposed 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 proposed 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. This view was proposed in the ITC and supported by the majority of the respondents to the ITC. The IPSASB is of the view that this treatment is consistent with the principles established in this proposed Standard.

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

BC24. 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.

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

BC25. 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. Information about the tax gap may be disclosed in accordance with the provisions of IPSAS 1, which requires disclosure of any information necessary for a fair presentation of the financial statements of a public sector entity.

Services In-Kind

BC26. This proposed Standard permits, but does not require, recognition of services in-kind. This Standard takes the view that many in-kind services 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, in-kind services do not meet the definition of an asset because the reporting entity has insufficient control of the services provided. The ITC raised the issue of recognizing and measuring services in-kind (referred to as voluntary services) and noted that there were difficult control and measurement issues to be resolved before recognition was possible. The Steering Committee concluded that entities should not be required to recognize voluntary services as assets, revenue and expenses. The majority of the respondents to the ITC agreed with this position. The IPSASB concluded that such recognition should be permitted but not required.

Compulsory Contributions to Social Security Schemes

BC27. This proposed Standard includes within its scope compulsory contributions to social security schemes that are non-exchange transactions. Some are of the view that the proposed Standard should exclude from its scope the compulsory contributions to social security schemes until a comprehensive standard on social security schemes is issued, or include more explicit guidance on the circumstances in which such contributions are non-exchange transactions. However, the IPSASB is of the view that more explicit guidance for such contributions in this proposed standard is not appropriate because the specific arrangements of social security schemes are highly jurisdiction dependent and it is not possible to provide in an international standard specific guidance that will deal adequately with arrangements in all jurisdictions. Rather the principles established in this proposed Standard are applied and professional judgment is exercised to determine whether, in a particular jurisdiction, contributions to such a scheme are exchange or non-exchange transactions, and whether, therefore, they should be treated in accordance with the requirements of this proposed Standard.