IMPLEMENTING IPSAS: A GUIDE FOR TRAINERS

Revenues

2024 Edition

Contents

Revenue (IPSAS 47)

Introduction

Revenue is defined in IPSAS 1, *Presentation of Financial Statements*, as "the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners." In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may give rise to an inflow of resources.

Amounts collected as an agent of the government or another government organization or other third parties are not considered revenue of the agent, as these amounts will not give rise to an increase in net assets/equity 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.

Information on revenues is important in assisting users to assess the financial condition and performance of public sector entities. Comparing revenues with expenses helps users to assess whether current revenues are sufficient to cover the costs of programs and services provided in the current period. Information on revenues is also important to the assessing the impact of taxation and other revenues on the economy or the need for borrowing in the long-term. The material in this module identifies and discusses the definition and the issues arising in reporting revenues that result from the unique types and nature of public sector revenues.

Public sector entities have some revenues which have exact equivalents in the for-profit sector and which can, under full accrual basis of accounting, be given the same accounting treatment. For example, public sector entities may have revenue from sales of goods and services, interest and dividends. In these transactions, the consideration exchanged is approximately of equal value to the goods and services received. However, the majority of governmental revenues are non-reciprocal transfers such as taxes, fees, duties, and fines obtained through the exercise of the sovereign powers.

The existence of an exchange relationship in non- reciprocal transfers is tenuous. While it could be argued that a government receives taxation revenues in return for goods and services, (e.g. roads, health care, education, law enforcement, defense, etc.), the citizens who pay for the services are not necessarily the beneficiaries of them. Payment of tax does not entitle the taxpayer to an equivalent value of services or benefits.

Requirements in respect of all types of revenue are covered by IPSAS 47, *Revenue*. IPSAS 47 was issued in May 2023 and has an effective date of January 1, 2026. It is strongly recommended that any entity that is not already in the process of implementing revenue under the previous IPSAS moves immediately to IPSAS 47, as this will avoid the need to adopt IPSAS 47 at a later date, with the costs that it will entail.

Learning Objective

- You are able to:
  - Apply the definitions relating to revenue
  - Distinguish between revenue without binding arrangements and revenue with binding arrangements
  - Apply the accounting treatment for revenue without binding arrangements
  - Apply the accounting treatment for revenue with binding arrangements

Common types of revenue for public sector entities include:

Revenue from transactions without binding arrangements (where the entity has no obligation to provide anything in return):

(i) Direct and indirect taxes;

(ii) Duties;

(iii) Fees and fines; and

(iv) Grants that do not impose compliance obligations on the entity.

Revenue from transactions with binding arrangements (where the entity has an obligation associated with the receipt of resources):

(i) Sales of goods or services; and

(ii) Grants that do impose compliance obligations on the entity.

Public sector entities may also have gains, for example:

(i) Increases in fair value of financial instruments; (IPSAS 41, *Financial Instruments*)

(ii) Foreign exchange gains; (IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*) and

(iii) Other gains. (for example, gains on sale of assets under IPSAS 45, *Property, Plant and Equipment*)

These gains are covered in other IPSAS and are not addressed in this module.

At the end of this session participants are able to:

- Apply the definitions relating to revenue
- Distinguish between revenue without binding arrangements and revenue with binding arrangements
- Apply the accounting treatment for revenue without binding arrangements
- Apply the accounting treatment for revenue with binding arrangements

Scope of IPSAS 47

- Applies to all revenue except:
  - Social benefit contributions accounted for using the insurance approach
  - Revenue covered by other standards (for example, lease revenue, revenue from financial instruments)
  - Gains from the sale of non-financial assets that are not an output of an entity's activities (for example, investment property, property, plant and equipment)
  - Revaluation gains
- Does not apply to rights or obligations arising from binding arrangements within the scope of other IPSAS (for example provisions, employee benefits, interests in other entities)

IPSAS 47 covers all types of revenue in a single Standard, with the exception of revenue that is covered in other IPSAS. Revenue will be covered in another IPSAS where the transaction that gives rise to the revenue also involves other elements such as assets or expenses. The link between revenue and the other elements means that specific, more detailed requirements will be required and these are best dealt with in the IPSAS covering the specific transaction.

Social benefit contributions are contributions made by individuals or employers to social benefit schemes such as state pensions or unemployment benefits. IPSAS 47 includes provisions covering revenue from ‘other compulsory contributions and levies’ which will cover most social benefit contributions. However,

IPSAS 42, *Social Benefits*, permits an entity to account for social benefits using the insurance approach where the specified criteria are met. Where this option has been taken, all aspects of the social benefit scheme are accounted for as if they were an insurance contract (see Module 5 for more details). As a result, social benefit contributions accounted for under the insurance approach are outside the scope of IPSAS 47.

Revenue that is covered by another IPSAS includes the following transactions:

- A public sector combination within the scope of IPSAS 40, *Public Sector Combinations*;
- Lease contracts within the scope of IPSAS 43, *Leases*;
- Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;
- Financial instruments and other contractual rights or obligations within the scope of IPSAS 41, *Financial Instruments*; and
- Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*).

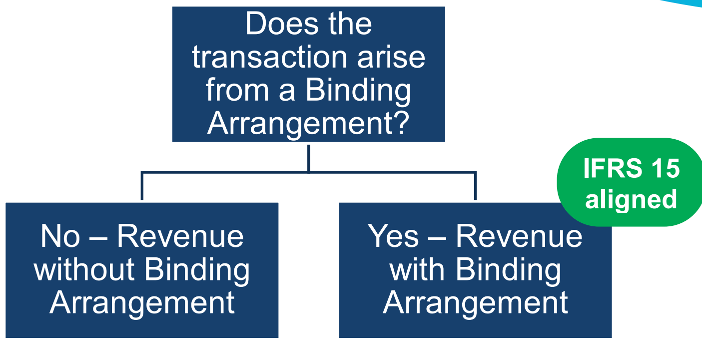
IPSAS 47 does not cover gains from the sale of non-financial assets that are not an output of an entity’s activities and are within the scope of IPSAS 16, *Investment Property*, IPSAS 45, *Property, Plant, and Equipment* , or IPSAS 31, *Intangible Assets*. These gains arise from the derecognition of an asset and are covered in the Standard that deals with the derecognition requirements.

Similarly, revenue from changes in the value of current and non-current assets arising from subsequent measurement is excluded from the scope of IPSAS 47 as these gains arise from the measurement of the assets, which is addressed in the specific Standards.

IPSAS 47 applies to rights and obligations arising from binding arrangements where these rights and obligations relate to the consideration to be received and any obligations to be satisfied. IPSAS 47 does not apply to rights and obligations that are within the scope of other IPSAS:

- IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
- IPSAS 32, *Service Concession Arrangements: Grantor*;
- IPSAS 34, *Separate Financial Statements*;
- IPSAS 35, *Consolidated Financial Statements*;
- IPSAS 36, *Investments in Associates and Joint Ventures;*
- IPSAS 37, *Joint Arrangements*;
- IPSAS 39, *Employee Benefits*; and
- IPSAS 40, *Public Sector Combinations*.

Types of Revenue



The existence or absence of a ‘binding arrangement’ is used to distinguish between different types of revenue and to determine how to account for that revenue.

While the term ‘binding arrangement’ is used throughout the IPSAS suite of standards, the definition of ‘binding arrangement’ in IPSAS 47, which emphasizes the enforceability of the binding arrangement, is critical to applying the concept to revenue. Contracts are a form of binding arrangement. For transactions that in the private sector would be accounted for under IFRS 15, *Revenue from Contracts with Customers*, the accounting in IPSAS 47 is consistent with IFRS 15. This will aid consolidation where government enterprises account under IFRS.

The same distinction between transactions without binding arrangements and transactions with binding arrangements is used for transfer expenses (see Module 5).

Binding Arrangements

- A **binding arrangement** is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement.

The definition of a binding arrangement in IPSAS 47 emphasizes the need for the arrangement to be enforceable by all parties to the arrangement, and for the parties to have both rights and obligations. This is a narrower definition of a binding arrangement than in some other IPSAS, and only applies to IPSAS 47 (and IPSAS 48, *Transfer Expenses*, where the definition is repeated).

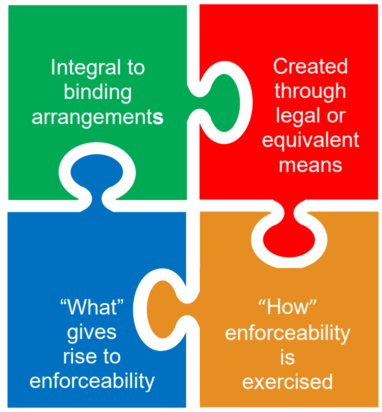
Enforceability

Enforceability…

- Makes an arrangement *binding*
- Holds the involved parties *accountable*
- Is based on *ability*, not probability

Enforceability…

- Can arise from *various mechanisms*
- Should be determined by assessing *all relevant factors*



Enforceability…

- From *legal* or *equivalent* means (consistent with 'legal obligations' in IPSASB Conceptual Framework)

Enforceability…

- *Compels completion of unfulfilled obligation(s)*

or

- *Imposes consequences of non-completion*

An arrangement is enforceable by another party if the agreement includes:

- Clearly specified rights and obligations for each involved party; and
- Remedies for non-completion by the parties which can be enforced through the identified enforcement mechanisms.

Enforceability can arise from various mechanisms, so long as the mechanism(s) provide(s) the entity with the ability to enforce the terms of the arrangement and hold the parties in the arrangement accountable for the satisfaction of stated obligations. An entity needs to determine whether an arrangement is enforceable based on whether each entity in the arrangement has the ability to enforce the rights and the obligations.

In determining whether an arrangement is enforceable, the entity considers the substance rather than the legal form of the arrangement. The assessment of whether an arrangement is enforceable is based on an entity's **ability** to enforce the specified terms and conditions of the arrangement and the satisfaction of the other parties' stated obligations. An entity's intentions regarding enforcement are not considered in assessing whether the arrangement is enforceable.

In some jurisdictions, public sector entities cannot enter into legal obligations, because they are not permitted to contract in their own name. However, there are alternative processes with equivalent effect to legal arrangements (these are described as enforceable through equivalent means). For an arrangement to be enforceable through "equivalent means", the presence of an enforcement mechanism outside the legal system (but with similar effect) is required to establish the right of the resource provider to obligate the entity to complete the agreed obligation or be subject to remedies for non-completion. Similarly, a mechanism outside the legal system is required to establish the right of the entity to obligate the resource provider to pay the agreed consideration.

Examples of Types of Revenue Transactions

- Grants from higher levels of government
- Receipt of assets donated by international organizations
- Funding for training courses to be provided to beneficiaries
- Commercial sales of goods
- Commercial sales of services

Public sector entities may have a range of different revenue transactions. These may be non-reciprocal (or non-exchange) transactions, or commercial (exchange) transactions. Entities will need to consider the nature of the transaction, and whether it arises from a binding arrangement, when determining how to account for the transaction.

While commercial sales of goods and services will aways arise from a binding arrangement, the other examples may give rise to revenue from transactions without a binding arrangement or revenue from transactions with binding arrangements depending on the circumstances of the transaction.

Definitions – Revenue without Binding Arrangements

- A **transfer** is a transaction, other than taxes, in which an entity receives a resource from a resource provider (which may be another entity or an individual) without directly providing any good, service, or other asset in return.
- **Fines** are economic benefits or service potential received or receivable by the entity, as determined by a court or other law enforcement body, as a consequence of the breach of laws and/or regulations.
- A **resource provider** is the party that provides a resource to the entity.

Transfers are one of the main types of revenue from transactions without binding arrangements. The entity receiving the transfer does not directly provide any good, service, or other asset in return. Fines are a type of transfer that a public sector entity may receive. IPSAS 47 uses the term 'resource provider' to refer to the entity or individual that provides the resources to the entity through a transfer.

The other main type of revenue from transactions without binding arrangements is taxes. There are covered later in this Module (see page 12). The principles of accounting from revenue without binding arrangements applies to both taxes and transfers. However, IPSAS 47 include additional guidance for taxes because of the particular issues that arise with accounting for revenue from taxes.

Rights and Obligations from Revenue without Binding Arrangements

- An entity's revenue transaction without a binding arrangement may confer rights and/or obligations:
  - No enforceable right, no enforceable obligation
  - Enforceable right (may meet the definition of an asset) but no enforceable obligation
  - Enforceable obligation (may meet the definition of a liability) but no enforceable right

In determining how to account for a revenue transaction, an entity will need to determine whether the transaction has a binding arrangement or not. A significant volume of revenue transactions in the public sector are expected to be without binding arrangements, such as taxes.

In making this determination, the entity will need to consider whether it has both an enforceable right and an enforceable obligation, and whether this is also the case for the other party or parties. Where all parties have an enforceable right and an enforceable obligation, the transaction will be with binding arrangements.

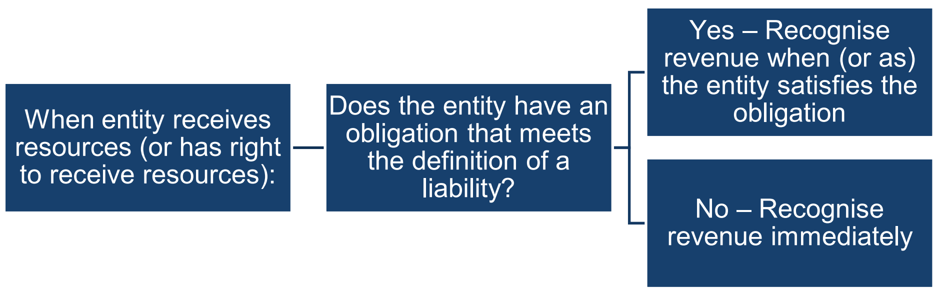
In a transaction without binding arrangements, the entity will not have both an enforceable right and an enforceable obligation. Different scenarios will arise from different transactions, and the entity may have:

- No enforceable right, and no enforceable obligation – for example, a donation, where an entity (an aid organization) is not able to enforce payment from a resource provider (donor), and is not required to use the donation in a specific way;
- An enforceable right, but no enforceable obligation – for example, income taxes, where an entity (national government) is able to enforce payment from a taxpayer, but is not required to use the tax revenue to provide specific services to the taxpayer; or
- No enforceable right, but an enforceable obligation – for example, an education grant, where an entity (university) is not able to enforce payment from the resource provider (national government), but is required to provide the grant to students that meet predetermined eligibility criteria.

The entity will need to determine whether any of its rights in the arrangement meet the definition and recognition criteria of an asset, and whether any of its obligations meet the definition and recognition criteria of a liability, and account for the transaction accordingly. An example of where an entity may have a liability associated with an inflow of resources is where a national government may voluntarily provide funding for environmental works to a regional government, and legislation requires the regional government to use such funds for a particular purpose.

The existence of a liability associated with the inflow (or a right to an inflow) of resources impacts the timing of revenue recognition, as shown in the diagram below.

Recognition of Revenue without Binding Arrangements



An entity shall recognize revenue from a transaction without a binding arrangement:

- When (or as) the entity satisfies any enforceable obligations associated with the inflow of resources that met the definition of a liability; or
- Immediately if the entity does not have an enforceable obligation associated with the inflow (or enforceable right to inflow) of resources.

When an entity recognizes revenue when (or as) it satisfies any enforceable obligations associated with the inflow of resources, it will also derecognize the liability at the same time.

It is expected that most revenue without a binding arrangement will be recognized immediately, as there will be no liability associated with the inflow of resources.

Note that it is unlikely that the entity will have both a right to resources and a liability, as this circumstance would usually result from a transaction with a binding arrangement.

Measurement of Revenue without Binding Arrangements

- Revenue is measured at the amount of the increase in the entity's net assets (e.g., the consideration received or receivable).
    - Non-cash consideration is measured at its current value
- After initial recognition, an entity shall subsequently measure:
    - A receivable asset:
        - Within the scope of IPSAS 41 as a financial asset; or
        - Not within the scope of IPSAS 41 on the same basis as a financial asset, by analogy.
    - All other assets as prescribed by the applicable IPSAS
- Liabilities measured in accordance with IPSAS 19, limited to value of associated asset

An inflow of resources or a right to an inflow of resources that meets the definition of an asset is initially measured at its transaction consideration as at the date at which the asset is recognized. Where the entity receives non-cash consideration, it measures that non-cash consideration at its current value, in accordance with the relevant IPSAS. The relevant IPSAS will specify whether current value is the asset's fair value or its current operational value. Current operational value and fair value are discussed in IPSAS 46, *Measurement* (see Module 10).

After initial recognition, an entity shall subsequently measure:

- A receivable asset:
    - Within the scope of IPSAS 41 as a financial asset in accordance with IPSAS 41; or
    - Not within the scope of IPSAS 41 on the same basis as a financial asset in accordance with IPSAS 41, by analogy.
- All other assets as prescribed by the applicable IPSAS.

The amount recognized as a liability is the entity's best estimate of the amount required to settle the obligation at the reporting date. The best estimate of a liability on initial recognition is limited to the value of the associated asset recognized; that is, the liability cannot exceed the amount of the resources received.

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 is 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.

Revenue from transactions without a binding arrangement is measured at the amount of the increase in net assets recognized by the entity. This will be the consideration received or receivable by the entity.

Definitions – Taxes

- **Taxes** are economic benefits or service potential compulsorily paid or payable to the entity, 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 laws and/or regulations.
- The **taxable event** is the event that the government, legislature, or other authority has determined will be subject to taxation.
- **Expenses paid through the tax system** are amounts that are available to beneficiaries regardless of whether or not they pay taxes.
- **Tax expenditures** are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

Taxes are one form of revenue without binding arrangements. IPSAS 47 includes specific guidance on revenue from taxes because of the practical issues that can arise in determining the amount of revenue to be recognized during a reporting period.

Accounting for Taxes

- Entity that imposes taxes recognizes the assets when:
  - Taxable event occurs; and
  - Recognition criteria satisfied
- Taxable event – event subject to taxation
- Assets are measured at the consideration received or receivable (same as for other revenue without binding arrangements) taking into account:
  - Probability resources will flow; and
  - Current value of resultant assets
- Revisions accounted for in current period

An entity that imposes taxes recognizes an asset in respect of taxes when the taxable event occurs, and the asset recognition criteria are met. Under IPSAS 47, taxes includes 'other compulsory contributions and levies.

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.

When 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.

Similarly, when 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.

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.

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

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.

There is an equivalent event for other compulsory contributions and levies. For example, for an unemployment benefit scheme that imposes compulsory contributions by way of salary deductions, the equivalent event to a taxable event will be the payment of the salary. To simplify the remaining text, this module refers to taxes and taxable events, but the principles apply equally to other compulsory contributions and levies.

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) Tax on personal income earned within a jurisdiction is the earning of assessable income by taxpayers in the current reporting period;

b) Tax imposed on businesses for the value added from sales of goods or services is the sale of value-added goods or services (i.e., undertaking of taxable activity) during the reporting period;

c) Tax imposed on sales of goods or services is the sale of taxable goods or services during the reporting period;

d) Duty on imports of specific goods to ensure that domestically produced goods are cheaper in the retail market is the movement of goods subject to duties across the customs boundary during the reporting period;

e) Duty on taxable property is the death of the person owning taxable property; and

f) Tax on assessed property within a jurisdiction is the passing of the date on which the taxes are levied, or the period for which the tax is levied (if the tax is levied on a periodic basis).

The current value of assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. The best estimate will take account of both the probability that the resources will flow to the government, and the current value of the resultant assets.

Reporting entities have to develop accounting policies for the measurement of assets arising from taxation that measures them at their current value as at the date of acquisition. Reliably measuring the assets arising from taxation transactions and the related revenue is challenging because information may not become available until sometime after the taxable event occurs. For example, the amount of income tax owed by taxpayers is not known until tax returns are filed and assessed.

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.

In some cases, the assets arising from taxation transactions and the related revenue cannot be reliably measured until sometime after the taxable event occurs. Consequently the recognition criteria may not be satisfied until a subsequent period or when payment is received or receivable. 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.

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.

When assets and revenue arising from taxation transactions are measured using statistical models, the actual amount realized in subsequent reporting periods may be different from the estimated amounts determined as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made prospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Illustrative Example

Scenario:

A national government levies a tax on the income of individuals. The fiscal period of the government and the tax year end is December 31. Taxpayers have until April 30 of the following year to file their tax return, and until June 30 to pay any outstanding taxes.

Does the national government recognize an asset and revenue at the fiscal period end? Explain.

Answer:

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 returns of individuals will not be filed until April 30 of the following year, the government is unable to directly measure the income tax receivable at December 31. It could wait until all tax returns have been filed and processed to finalize its financial statements. This may not satisfy the qualitative characteristic of financial information, that is, that it be timely. The government develops a statistical model to indirectly measure income taxation revenue receivable.

The government uses the income tax collection statistical history, 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 and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model.

The model enables the reporting entity to reliably measure the asset and revenue accruing to it during the reporting period, which are then recognized and disclosed in the general-purpose financial statements. The notes to the general-purpose financial statements disclose the accounting policies, including the basis of measurement of income tax revenue. In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3, *Accounting Policies, Accounting Estimates and Errors*.

Other Tax Accounting Issues

- Resources received prior to the taxable event are recognized as advance receipts of taxes
- Taxation revenue is the gross amount:
    - Not reduced for expenses paid through the tax system
    - Not grossed up for tax expenditures
- Taxes levied for specific purposes

Resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts), because

(i) the event that gives rise to the entity's entitlement to the taxes has not occurred, and

(ii) the criteria for recognition of taxation revenue have not been satisfied.

Consistent with the definitions of assets, liabilities, resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied, 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.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system. Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

In some jurisdictions, the government uses the tax system as a method of paying benefits to taxpayers that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer.

The key is that expenses paid through the tax system are 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. Therefore offsetting of tax revenue and expenses paid through the tax system is not permitted.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. In most jurisdictions, governments use the tax system to encourage certain financial behaviors and discourage other behaviors. 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.

Some taxes are levied for specific purposes. Generally, taxes levied for a specific purpose do not create a performance obligation that requires a liability to be recognized. If the government is required to recognize a liability relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the performance obligation 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 are not part of a binding arrangement and the government does not have a compliance obligation. If the resources are not used for the intended purpose, the taxpayer cannot enforce repayment of the amounts, nor enforce the use of the resources for the intended purposes.

Tax Expenditure/Expenses Paid Through the Tax System

Scenario:

A national government permits individual taxpayers who are homeowners to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. The policy has been adopted to encourage home ownership.

1. Is the deduction a tax expenditure or an expense paid through the tax system? Explain.
2. How should the national government account for and report the impact of the deduction of tax revenues? Explain.

Answer:

The impact on tax revenue as a result of the deduction of mortgage interest and property taxes is a tax expenditure. It is a tax concession only available to taxpayers. Taxation revenue shall not be grossed up for the amount of the tax concession. Tax expenditures are not reported in the statement of financial performance. They are forgone tax revenue.

Accounting for Revenue with Binding Arrangements

Identify the binding arrangement

Identify compliance obligations

Determine the transaction consideration

Allocate the transaction consideration

Recognize revenue

IPSAS 47 uses a five-step model for recognizing revenue. This five-step model is based on the five-step model that is used in IFRS 15, adapted for the public sector. A key difference between the model in IPSAS 47 and the model in IFRS 15 is that compliance obligations (in IPSAS 47) are broader than concept of promises (in IFRS 15). Compliance obligations are not limited to transfers of goods and services. Compliance obligations reflect that an entity's obligation in a binding arrangement requires the entity to either use resources internally for a distinct good or service or transfer a distinct good or service to an external party (purchaser or third-party beneficiary). This definition is intended to encapsulate the concept as presented in IFRS 15, but revised to better capture public sector transactions arising from binding arrangements where an entity does not transfer distinct goods or services to an external party

This Module follows the five steps in order as it is considered that this will assist participant's understanding of the accounting requirements, particularly where participants are less familiar with accounting standards. This order differs to the order of the requirements in IPSAS 47, which adopts the traditional order in accounting standards of covering recognition requirements before measurement requirements. The following table shows which paragraphs of IPSAS 47 relate to which steps.

Step	IPSAS 47 Paragraphs and initial heading
Step 1 – Identify the binding arrangement	11–16 – Identify whether a binding arrangement exists; 56–67 – Accounting for the binding arrangement
Step 2 – Identify compliance obligations	68–77 – Identifying compliance obligations in a binding arrangement
Step 3 – Determine the transaction consideration	109–132 – Determining the transaction consideration
Step 4 – Allocate the transaction consideration	133–147 – Allocating the transaction consideration to compliance obligations
Step 5 – Recognize revenue Recognize associated cots	78–108 – Initial recognition of revenue transactions with a binding arrangement; 148–161 – Other assets from revenue transactions with binding arrangement costs

Definitions – Revenue with Binding Arrangements

- A **compliance obligation** is an entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.
- A **binding arrangement asset** is an entity's right to consideration for satisfying its compliance obligations in compliance with the terms of the binding arrangement when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
- A **binding arrangement liability** is an entity's obligation to satisfy its compliance obligation in compliance with the terms of the binding arrangement for which the entity has received consideration (or the amount is due) from the resource provider.
- A **purchaser** is a resource provider that provides a resource to the entity in exchange for goods or services that are an output of an entity's activities under a binding arrangement for its own consumption.
- The **stand-alone value** (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.
- A **third-party beneficiary** is an entity, household or individual who will benefit from a transaction made between other parties by receiving resources.
- The **transaction consideration** is the amount of resources to which an entity expects to be entitled.

With the exception of 'a third-party beneficiary', these IPSAS 47 terms are equivalent to those used in IFRS 15, and are key to understanding how to account for revenue transactions with binding arrangements.

The most significant difference from IFRS 15 relates to compliance obligations. The definition of "compliance obligation" reflects that an entity's obligation in a binding arrangement requires the entity to either use resources internally for a distinct good or service or transfer a distinct good or service to an external party (purchaser or third-party beneficiary). This definition is intended to encapsulate the concept as presented in IFRS 15, but revised to better capture public sector transactions arising from binding arrangements where an entity does not transfer distinct goods or services to an external party Under IPSAS 47, compliance obligations also include promises to use resources internally to carry out specified activities or to achieve specified outcomes.

Step 1 – Identify Binding Arrangements

- Confirm identification in determining type of revenue
- Criteria must be met to account for revenue with a binding arrangement:
  - Parties to the binding arrangement have approved the binding arrangement
  - The entity can identify each party's rights under the binding arrangement
  - The entity can identify the payment terms for the satisfaction of each identified compliance obligation
  - The binding arrangement has economic substance
  - It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations

An entity will have initially identified a binding arrangement in determining whether a revenue transaction is a transaction without a binding arrangement or a transaction with a binding arrangement.

Having determined that the transaction is a transaction with a binding arrangement, the entity needs to confirm that identification of the binding arrangement by ensuring that the binding arrangement meets the criteria to be accounted for using the binding arrangement accounting model, and determining whether the arrangement should be combined with other binding arrangements.

For an entity to account for a binding arrangement using the binding arrangement accounting model, all of the following criteria need to be met:

a) The parties to the binding arrangement must have approved the binding arrangement. This may be in writing, orally or in accordance with other customary practices. The parties must also be committed to perform their respective obligations.

b) The entity can identify each party's rights under the binding arrangement.

c) The entity can identify the payment terms for the satisfaction of each identified compliance obligation. In complex transactions, there may be some overlap with Step 2, identifying compliance obligations.

d) The binding arrangement has economic substance (that is, the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement).

e) It is probable that the entity will collect the consideration to which it will be entitled for satisfying its compliance obligations in accordance with the terms of the binding arrangement. In evaluating whether collectability of an amount of consideration is probable, an entity needs to consider only the resource provider's ability and intention to pay that amount of consideration when it is due.

If a binding arrangement meets these criteria at the inception of the binding arrangement, an entity does not reassess those criteria unless there is an indication of a significant change in facts and circumstances.

When a binding arrangement does not initially meet all of the criteria above, the entity recognizes any consideration received as revenue only when either of the following events has occurred:

a) The entity has fully satisfied its compliance obligation to which the consideration that has been received relates and the consideration received from the resource provider is non-refundable; or

b) The binding arrangement has been terminated and the consideration received from the resource provider is non-refundable.

When a binding arrangement does not initially meet all of the criteria above, the entity continues to assess the binding arrangement to determine whether the criteria are subsequently met.

Under IPSAS 47, an arrangement is not treated as a binding arrangement while each party to the binding arrangement has the unilateral enforceable right to terminate a wholly unsatisfied binding arrangement without compensating the other party (or parties). A binding arrangement is wholly unsatisfied if both of the following criteria are met:

- The entity has not yet started satisfying any of its compliance obligations in the binding arrangement; and
- The resource provider has not yet paid, and is not yet obligated to pay, any consideration to the entity for the entity satisfying any of its compliance obligations in the binding arrangement.

If an entity has determined that its revenue arises from a transaction with a binding arrangement, it also considers whether the arrangement should be combined with other binding arrangements, and whether there are any modifications to its binding arrangement.

Combination of Binding Arrangements

- An entity combines two or more binding arrangements entered into at or near the same time with the same resource provider (or related parties of the resource provider) and accounts for the binding arrangements as a single binding arrangement if one or more of the following criteria are met:
  - The binding arrangements are negotiated as a package with a single objective;
  - The amount of consideration to be paid in one binding arrangement depends on the consideration or performance of the other binding arrangement; or
  - The promises in the binding arrangements (or some promises in each of the binding arrangements) are a single compliance obligation.

IPSAS 47 requires two or more binding arrangements to be combined and accounted for as one arrangement where this reflects the economic substance of the binding arrangements. This can occur when the arrangements are entered into at (or near) the same time, and as a result, the agreements are interrelated. IPSAS 47 includes criteria for determining whether binding arrangements should be combined.

Modifications of Binding Arrangements

- A modification to a binding arrangement is a change in the scope or consideration (or both) of a binding arrangement that is approved by the parties
- Accounted for as a separate binding arrangement if both of the following conditions are present:
  - The scope increases because of the addition of distinct promises
  - The consideration increases by an amount of consideration that reflects the entity's stand-alone values of the additional promises
- Otherwise, account for the remaining promises either:
  - As if it were a termination of the existing binding arrangement and the creation of a new binding arrangement; or
  - As if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single compliance obligation that is partially satisfied

A modification to a binding arrangement is a change in the scope (compliance obligations) or consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement.

In some sectors and jurisdictions, a modification to a binding arrangement may be described as a variation, an amendment, or a change order.

A modification to a binding arrangement exists when the parties to a binding arrangement approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the binding arrangement.

Modifications can be made in a variety of different ways and at different points in the lifetime of the binding arrangement. These factors influence how the modification should be accounted for.

In the first scenario, the scope of the binding arrangement increases because of the addition of distinct promises, and the consideration of the binding arrangement increases by an amount that reflects the value of the additional promises. In this scenario, the value is the entity's stand alone value of the promises, subject to any appropriate adjustments to that value to reflect the circumstances of the particular binding arrangement. An adjustment may be appropriate where the entity customizes goods to a purchaser's requirements, and the costs of this customization are only incurred once.

In this scenario, the modification is in substance an additional agreement, and is accounted for as a separate binding arrangement. No changes are made to the existing binding arrangement.

The second scenario is where the modifications do not amount to additional distinct promises and corresponding consideration. In this scenario, the accounting for the existing binding arrangement is modified. The impact of this depends on the modifications and the extent to which the binding arrangement has been satisfied prior to the modification.

IPSAS 47 requires such modifications to be accounted for in the most appropriate of three methods:

a) An entity accounts for the modification to a binding arrangement as if it were a termination of the existing binding arrangement and the creation of a new binding arrangement, if the remaining promises (after the modification) are distinct from the promises satisfied on or before the date of the modification to a binding arrangement. The amount of consideration to be allocated to the remaining compliance obligations (or to the remaining promises in a single compliance obligation) is the sum of:

    i) The consideration promised by the resource provider (whether already received or not) that was included in the initial estimate of the transaction consideration and that had not been recognized as revenue; and

    ii) The additional consideration promised as part of the modification to a binding arrangement.

b) An entity accounts for the modification to a binding arrangement as if it were a part of the existing binding arrangement if the remaining promises are not distinct and, therefore, form part of a single compliance obligation that is partially satisfied at the date of the modification to a binding arrangement. The entity will need to revise its estimate of the transaction consideration to take account of any additional consideration from the modification. The entity will also need to revise its measure of progress towards complete satisfaction of the compliance obligation, as this will have changed as a result of the additional promises in the modification. The overall effect of these revised estimates is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the modification of a binding arrangement.

c) If the remaining promises are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) compliance obligations in the modified binding arrangement in a manner that is best reflects the substance of the modification.

Step 2 – Identify Compliance Obligations

- An entity identifies as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties (i.e., the purchaser (the resource provider) or third-party beneficiary), either:
    - A good or service (or a bundle of goods or services) that is distinct; or
    - A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use internally or transfer to the purchaser or third-party beneficiary
- A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid
- A compliance obligation is a unit of account in a revenue transaction with a binding arrangement that represents a distinct promise or group of promises to which recognition criteria and measurement concepts are applied
- If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all of the goods or services promised in a binding arrangement as a single compliance obligation.

A compliance obligation is an entity's promise in a binding arrangement to either use resources internally or to transfer a distinct good or service to a purchaser (i.e., resource provider) or third-party beneficiary.

The objectives of a compliance obligation may be incremental to the entity's service delivery objectives, or additional objectives in which the entity has engaged through the binding arrangement.

In some instances, an entity's promise requires the entity to use resources to transfer a distinct good or service to the purchaser or a third-party beneficiary. These promises may occur in commercial (exchange) transactions or in non-commercial (non-exchange) transactions.

Goods or services promised in a compliance obligation may include the following:

- Provision of goods produced by an entity (for example, inventory such as publications or municipal water provided for a fee).
- Purchase of goods by an entity and provided to citizens (for example, waste collection bins).
- Provision of goods or services by an entity to third-party beneficiaries (for example a vaccination program for children provided by a hospital that was funded by a government for that purpose).
- Performing a task for a purchaser that is specified in the binding arrangement (for example, management of water facilities).

In many instances, an entity's promise in a binding arrangement requires the entity to use resources internally to achieve specific service delivery objectives. Examples of resources provided to a public sector entity in a binding arrangement may include:

- Transfers from national governments to provincial, state or local governments.
- Transfers from state/provincial governments to local governments.
- Transfers from governments to other public sector entities.
- Transfers to governmental agencies that are created by laws or regulations to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities.
- Transfers from donor agencies to governments or other public sector entities.

A resource provider in the binding arrangement would have the ability to enforce how the entity uses resources to achieve specific objectives and hold the entity accountable in complying with such terms.

Each compliance obligation identified by an entity needs to be distinct. In assessing whether an entity's promises to use resources internally or transfer goods or services to the purchaser or third-party beneficiary are separately identifiable, the objective is to determine whether the nature of the promise, within the context of the binding arrangement, is a promise to use resources in individually specific ways rather than in a combined manner.

If a promise is not distinct, an entity shall combine that promise (and the related good or service) with other promises (and related goods or services) until it identifies a bundle of promises (and related goods or services) that is distinct. In some cases, that would result in the entity accounting for all of the promises (and related goods or services) in a binding arrangement as a single compliance obligation.

Step 3 – Determine the Transaction Consideration

- The transaction consideration is the amount of resources to which an entity expects to be entitled.
- The nature, timing and amount of consideration affect the estimate of the transaction consideration. When determining the transaction consideration, an entity shall consider the effects of all of the following:
    - Variable consideration (incentives, penalties, etc.)
    - Constraining estimates of variable consideration
    - The existence of a significant financing component
    - Non-cash consideration
    - Consideration payable to a resource provider

Determination of the transaction consideration for many binding arrangements will be straightforward, as the total amount receivable will be specified in the binding arrangement and there will be no significant financing component. Where this is not the case, the transaction consideration will need to be estimated.

An entity needs to consider the terms of the binding arrangement and its customary practices to determine the transaction consideration.

The transaction consideration is the amount of resources to which an entity expects to be entitled in the binding arrangement for satisfying its compliance obligations. This excludes any amounts collected on behalf of third parties (for example, some sales taxes).

The consideration promised in a binding arrangement may include fixed amounts, variable amounts, or both.

Variable Consideration

If the consideration in the binding arrangement includes a variable amount, an entity will need to estimate the amount of the consideration which the entity expects to collect from the resource provider.

An amount of consideration can vary because of discounts, incentives, performance bonuses, penalties or other similar items. The consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if a fixed amount is promised as a performance bonus on achievement of a milestone specified in the binding arrangement.

An entity estimates an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it expects to be entitled to:

- The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of binding arrangements with similar characteristics.
- The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the binding arrangement). The most likely amount may be an appropriate estimate of the amount of variable consideration if the binding arrangement has only two possible outcomes (for example, an entity either completes construction of infrastructure on schedule or not).

Constraining Estimates of Variable Consideration

When estimating the variable consideration to be included in the transaction consideration, an entity only includes that portion of the variable consideration where it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Existence of a Significant Financing Component in the Binding Arrangement

In determining the transaction consideration, an entity will need to adjust the amount of consideration for the effects of the time value of money if the timing of the inflows agreed to by the parties to the binding arrangement provides the resource provider or the entity with a significant benefit of financing the binding arrangement.

The entity could receive a significant benefit if it receives the resources significantly in advance of satisfying its compliance obligations. Similarly, the resource provider could receive a significant benefit if it does not transfer the resources until significantly later than the entity has satisfied its compliance obligations.

In those circumstances, the binding arrangement contains a significant financing component.

As a practical expedient, IPSAS 47 permits an entity not to adjust the consideration for the effects of a significant financing component if the entity expects that the period between when the entity satisfies the compliance obligation and when the resource provider transfers the consideration will be one year or less.

An entity shall present the effects of financing (interest revenue or interest expense) separately from revenue from binding arrangements in the statement of financial performance. Interest revenue or interest expense is recognized only to the extent that a binding arrangement asset (or receivable) or a binding arrangement liability is recognized in accounting for a binding arrangement.

Non-Cash Consideration

An entity may receive non-cash consideration. To determine the transaction consideration for binding arrangements in which a resource provider promises consideration in a form other than cash, an entity measures the non-cash consideration at its current value, in accordance with the relevant IPSAS.

Step 4 – Allocate the Transaction Consideration to Compliance Obligations

- Objective: allocate the transaction consideration to each compliance obligation based on the amount of consideration to which the entity expects to be entitled in satisfying the compliance obligations
  - Allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis
  - The stand-alone value (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary

Allocating the transaction consideration to the compliance obligations in a binding arrangement is an important step, as it determines how much revenue is earned for satisfying each compliance obligation. This also determines the timing of revenue recognition, as compliance obligations may be satisfied at different points in time.

For many entities, it is likely that the binding arrangements will be straightforward. Where a binding arrangement has only one compliance obligation, the total transaction consideration relates to that compliance obligation, and no further allocation is required.

When allocating the transaction consideration to compliance obligations, an entity's objective is to allocate to each compliance obligation the amount of the transaction consideration that reflects the amount of consideration to which the entity expects to be entitled for satisfying the compliance obligations. In other words, the entity is seeking to determine how much it should earn as revenue for satisfying each compliance obligation.

To meet this objective, an entity will need to use an appropriate basis for allocating the transaction consideration to each compliance obligation. IPSAS 47 specifies the basis that is to be used. Entities need to allocate the transaction consideration to each compliance obligation identified in the binding arrangement on a relative stand-alone value basis – that is, in proportion to the stand-alone basis of each compliance obligation.

The stand-alone value (of a good or service) is the price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary.

Estimating the Stand-Alone Value

- If a stand-alone value is not directly observable, an entity will need to estimate the stand-alone value:
  - Amount that would result in the allocation of the transaction consideration meeting the allocation objective (first bullet, previous slide)
- Suitable methods include:
  - Adjusted market assessment approach
  - Expected cost approach
  - Residual approach – total transaction consideration less stand-alone values of other goods and services allocated by other methods
- Variable consideration may only relate to some compliance obligations and is allocated accordingly

The best evidence of a stand-alone value will be the observable price of a good or service when the entity provides that good or service separately in similar circumstances and to similar resource providers.

Similarly, where a compliance obligation requires the entity to use resources internally, the best evidence of a stand-alone value will be the observable price of the goods or services the entity will need to purchase to enable it to satisfy the compliance obligation.

In a binding arrangement, the stated price or a list price for a good or service may be (but should not be presumed to be) the stand-alone value of that good or service. Where a binding arrangement relates to a grant to be received by the entity, stated prices for the satisfaction of each compliance obligation are more likely to be the stand-alone value of that compliance obligation where a detailed budget has been agreed with the resource provider than where this has not occurred.

If a stand-alone value is not directly observable, an entity will need to estimate the stand-alone value. The estimate should produce an amount that will result in the transaction consideration being allocated in a way that meets the objective discussed above.

The entity will need to consider all information (including entity-specific factors and market conditions) that is reasonably available to the entity. When making the estimate, the entity should maximize the use of observable inputs. The entity should also apply estimation methods consistently in similar circumstances.

Suitable methods for estimating the stand-alone value of a good or service include the following:

- *Adjusted market assessment approach*. An entity could estimate the price that other entities would be willing to pay for those goods or services that the entity either provides or uses in satisfying its compliance obligations and adjusting those prices as necessary to reflect the entity's costs and margins. An entity is more likely to apply a margin to commercial transactions than when it is receiving a grant. Where the entity cannot estimate the price of the specific goods and services provided or used, it may need to use similar goods or services in developing its estimate,
- *Expected cost approach*. An entity could forecast its expected costs of satisfying a compliance obligation and, if applicable, add an appropriate margin. Again, an entity is more likely to add a margin to commercial transactions than when it is receiving a grant.
- *Residual approach*. An entity may estimate the stand-alone value by reference to the total transaction consideration less the sum of the observable stand-alone values of other goods or services included in other compliance obligations. The residual approach may only be used if one of the following criteria is met:
    - The price is highly variable because a representative stand-alone value is not discernible from past transactions or other observable evidence; or
    - The price is uncertain.

Allocation of Variable Consideration

Variable consideration that is promised in a binding arrangement may be attributable to the entire binding arrangement or to a specific part of the binding arrangement (that is, to some but not all of the compliance obligations).

An entity should allocate a variable amount (and subsequent changes to that amount) entirely to a compliance obligation if both of the following criteria are met:

- The terms of a variable payment relate specifically to the entity's efforts to satisfy the compliance obligation; and
- Allocating the variable amount of consideration entirely to the compliance obligation is consistent with the allocation objective discussed above.

Any variable consideration that is not allocated on this basis is allocated using the method discussed on a relative stand-alone value basis as discussed above.

Changes in the Transaction Consideration

After the inception of the binding arrangement, the transaction consideration can change for various reasons. An entity will need to account for the change in the amount of consideration to which it expects to be entitled for satisfying its compliance obligation.

The entity should allocate these changes in the transaction consideration to its compliance obligations on the same basis as at the inception of the binding arrangement. This means that the entity does not reallocate the transaction consideration to reflect any changes in stand-alone values that have arisen after the inception of the binding arrangement. Amounts of the changes to the transaction consideration that are allocated to a satisfied compliance obligation are recognized either as revenue or as a reduction of revenue in the period in which the transaction consideration changes.

Step 5 – Recognize Revenue

Entity satisfies compliance obligation prior to receiving resources	Entity satisfies compliance obligation after receiving resources
Recognize binding arrangement asset and revenue as or when compliance obligation is satisfied	Recognize cash/other asset and binding arrangement liability when resources received
Asset is entitlement to receive resources	Liability is entity's obligation to achieve compliance obligation
Derecognize asset and recognize cash/other asset when resources received	Derecognize liability and recognize revenue as or when compliance obligation is satisfied

Recognition of a revenue transaction with a binding arrangement does not begin until one party has begun to satisfy its obligations under the binding arrangement. This might be the entity beginning to satisfy compliance obligations, or the resource provider transferring resources to the entity.

Until this point, the binding arrangement is wholly unsatisfied, and the entity does not recognize any asset, liability or revenue associated with the binding arrangement, unless the binding arrangement is onerous.

If a binding arrangement becomes onerous (for example, where an entity estimates that a commercial arrangement has moved from being profitable to being loss-making), the entity accounts for the expected deficit in accordance with IPSAS 19.

When an entity receives an inflow of resources from a binding arrangement that meets the definition of and recognition criteria for an asset, the entity recognizes:

- Revenue for any satisfied compliance obligations in respect of the same inflow; and
- A liability (binding arrangement liability) for any unsatisfied compliance obligations in respect of the same inflow.

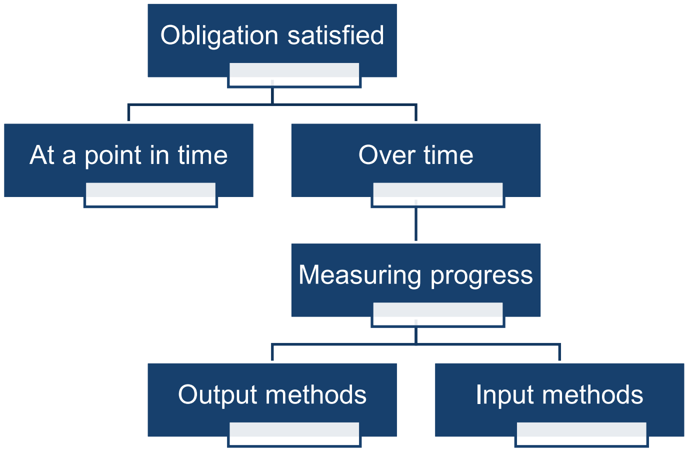
The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. An entity shall recognize revenue from a transaction with a binding arrangement when (or as) the entity satisfies a compliance obligation.

This means that the entity may recognize revenue prior to receiving resources from the resource provider. In such cases, the entity recognizes revenue and an asset (or a receivable) if the amount is already due).

When the entity recognizes revenue, it shall also reduce the carrying amount of any related liability (that is, the liability recognized when the entity received resources prior to satisfying a compliance obligation) by an equal amount.

IPSAS 47 uses the terms “binding arrangement asset” and “binding arrangement liability” but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a binding arrangement asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and binding arrangement assets.

Satisfying Compliance Obligations



For each compliance obligation that the entity identifies, it will need to determine (at the inception of the binding arrangement) whether it satisfies the compliance obligation over time or satisfies the compliance obligation at a point in time. Unless the entity can show that it satisfies a compliance obligation over time, the compliance obligation is satisfied at a point in time.

Determining Whether a Compliance Obligation is Satisfied Over Time or at a Point in Time

It follows that determining whether an entity satisfies a compliance obligation over time or at a point in time is an important factor in determining when revenue should be recognized. IPSAS 47 sets out the criteria that are to be applied in making that determination. These factors vary depending on the nature of the compliance obligation. This is because the entity will control any assets and benefits where the compliance obligation requires it to use resources internally, whereas a purchaser or third-party beneficiary will control goods or services where the compliance obligation requires the entity to transfer goods or services.

Where a compliance obligation requires the entity to use resources internally, the compliance obligation will be satisfied over time if one of the following criteria are met:

- The entity simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances an asset (for example, work in progress) that the entity controls as the asset is created or enhanced.
- The entity has an enforceable right to consideration for performance completed to date.

Where a compliance obligation requires the entity to transfer goods or services to a purchaser or third-party beneficiary, the criteria used are similar but reflect the different nature of the compliance obligation. The compliance obligation will be satisfied over time if one of the following criteria are met:

- The purchaser or third-party beneficiary simultaneously receives and consumes the economic benefits or service potential provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances an asset (for example, work in progress) that the purchaser or third-party beneficiary controls as the asset is created or enhanced.
- The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to consideration for performance completed to date.

Where none of these criteria apply, the compliance obligation is satisfied at a point in time.

Compliance Obligation Satisfied at a Point in Time

If an entity has determined that a compliance obligation is satisfied at a point in time, it will need to determine when that point has occurred. This will determine when the entity recognizes revenue.

Where the compliance obligation requires the entity to transfer goods or services to another party (either the resource provider or a third-party beneficiary), the compliance obligation will be satisfied when that other party gains control of the goods or services.

Where the compliance obligation requires the entity to use resources internally, the compliance obligation will be satisfied when the entity controls the benefits of using the resources as specified in the binding arrangement.

The benefits of using the resources as specified in the binding arrangement can be obtained directly or indirectly in many ways, such as by:

- Using resources to provide internal training.
- Using resources to produce goods or other assets for internal use, or to provide services (including public services).
- Using resources to enhance the value of other assets.
- Using resources to settle liabilities or reduce expenses.

Compliance Obligation Satisfied Over Time

Where a compliance obligation is satisfied over time, an entity recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation.

The entity should apply a single method of measuring progress for each compliance obligation satisfied over time and the entity should apply that method consistently to similar compliance obligations and in similar circumstances.

At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a compliance obligation satisfied over time.

Measuring Progress Towards Complete Satisfaction of a Compliance Obligation

Output methods - examples

- Specified activities
- Performance surveys
- Result appraisals
- Milestones
- Units produced or delivered
- etc.

Input methods - examples

- Eligible expenditures
- Consumed materials
- Labor hours
- Machine hours
- etc.

Appropriate methods of measuring progress include output methods and input methods. In determining the appropriate method for measuring progress, an entity will need to consider the nature of the entity's promise, and whether the terms of the binding arrangement specify the activities or expenditures an entity is to perform or incur, respectively.

As circumstances change over time, the entity should update its measure of progress to reflect any changes in the satisfaction of the compliance obligation. These changes to an entity's measure of progress are accounted for as a change in accounting estimate.

Illustrative Example

A regional government enters into a binding arrangement to provide CU1.2 million to a regional hospital. The government requires the hospital to use the CU1.2 million in the operation of its medical imaging department.

1. Identify the hospital's compliance obligation(s)?
2. Does the hospital satisfy the compliance obligation(s) over time or at a point in time?

1. The binding arrangement has a single compliance obligation, which is the hospital's use of funds in the operation of its medical imaging department.
2. The compliance obligation is satisfied over time because the hospital simultaneously receives and consumes the economic benefits or service potential of the received resources as it is used. The hospital recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation (that is, its use of the funds in operation of its medical imaging department).

Measurement of Assets and Liabilities

- Assets are measured at the amount of the consideration received or receivable.
  - Non-cash consideration is measured at its current value
- After initial recognition, an entity shall subsequently measure:
  - A receivable asset:
    - Within the scope of IPSAS 41 as a financial asset; or
    - Not within the scope of IPSAS 41 on the same basis as a financial asset, by analogy.
  - All other assets as prescribed by the applicable IPSAS
- Liabilities measured in accordance with IPSAS 19, limited to value of associated asset

Where an entity receives resources before it has satisfied its compliance obligations, it will measure those assets at the amount of the consideration received. This is straightforward for receipts of cash (unless the binding arrangement has a significant financing component); however, if the asset received is a non-cash asset, the entity will need to measure the asset at its current value. Current value is defined in IPSAS 46, *Measurement*, and may be fair value or current operational value depending on the purpose for which the entity will hold the asset. Module 10b provides more details.

Where an entity satisfies its compliance obligations prior to receiving resources, it will recognize an asset when (or as) it satisfies those compliance obligations. The asset may be a binding arrangement asset or, if the amount is already due, a receivable. The asset is measured at the amount of the consideration receivable. Unless all the compliance obligations in a binding arrangement have been satisfied, the value of the asset will depend on the transaction consideration allocated to the satisfied compliance obligations (and any partially satisfied compliance obligations which are satisfied over time).

After initial recognition, receivable assets within the scope of IPSAS 41 and are measured as financial assets. Module 6 Financial Instruments covers the measurement of financial assets.

Some receivable assets may not fall within the scope of IPSAS 41 because they do not arise from contracts. For example, an arrangement between two departments of the same government may not be a contract where the departments do not have the ability to contract in their own name, but only in the name of the government. No party can contract with itself. Nevertheless, if the arrangement between the two departments can be enforced by equivalent means, it may still meet the definition of a binding arrangement, and be accounted for in accordance with the binding arrangement model. In this case, the receivable asset from the binding arrangement is accounted for on the same basis as a financial asset, applying the requirements of IPSAS 41 to the asset by analogy with a financial asset.

As a consequence, all receivable assets arising from binding arrangements under IPSAS 47 are accounted for in the same manner, whether or not they arise from contracts.

Where the asset is a non-cash asset, an entity should measure the asset after initial recognition in accordance with the relevant IPSAS (for example, IPSAS 12, *Inventories*). Where an IPSAS allows more than one measurement basis (for example, current value or historical cost for property, plant and equipment under IPSAS 45), the entity should use the same basis as for other assets of the same asset class.

Where an entity recognizes a liability under the binding arrangement, the liability is measured in accordance with IPSAS 19 (see Module 3 Liabilities).

In general, the measurement of assets and liabilities for revenue transactions with binding arrangements is the same as for revenue transactions without binding arrangements. However, revenue transactions with binding arrangements may have additional factors that need to be taken into account, such as significant financing components, or estimating variable consideration for binding arrangement assets and receivables.

Measurement of Revenue with Binding Arrangements

- When (or as) a compliance obligation is satisfied and an entity recognizes revenue, this is measured at the amount of the transaction consideration that is allocated to that compliance obligation
- Includes an estimate of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved
- Adjusted for any significant financing component

When (or as) a compliance obligation is satisfied and an entity recognizes revenue, this is measured at the amount of the transaction consideration that is allocated to that compliance obligation.

This amount excludes variable consideration that is 'constrained' in accordance with IPSAS 47. Variable consideration is constrained where the likelihood that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved is less than highly probable.

Where a compliance obligation is satisfied at a point in time, the revenue recognized is measured at the full amount of the transaction consideration allocated to that compliance obligation.

Where a compliance obligation is satisfied over time, the revenue recognized is measured at the transaction consideration allocated to that compliance obligation, adjusted for the proportion of the compliance obligation that has been satisfied.

Determining the transaction consideration is step three of the five-step model, and has been covered earlier in this module. Allocating the transaction consideration to the compliance obligations is step four of the five-step model, and have been covered earlier in this module.

As well as recognizing and measuring the revenue from a transaction with a binding arrangement, an entity will also need to account for the costs associated with that binding arrangement. These costs are also addressed in IPSAS 47.

Costs of Fulfilling a Binding Arrangement

- Apply other IPSAS (IPSAS 12, IPSAS 31, or IPSAS 45) to recognize an asset if relevant
- If other IPSAS do not apply, recognize an asset from the costs incurred to fulfil a binding arrangement only if the following criteria are met:
    - Costs relate directly to a binding arrangement
    - The costs generate or enhance resources of the entity that will be used in satisfying compliance obligations in the future
    - The costs are expected to be recovered
- Asset is amortized on a systematic basis that is consistent with the satisfaction of the compliance obligation

The activities that an entity undertakes to satisfy a compliance obligation may result in outputs that meet the definition of an asset.

For example, an entity may acquire or produce training materials that meet the definition of inventory under IPSAS 12. Similarly, an entity may satisfy a compliance obligation by carrying out research and producing a report that meets the definition of an intangible asset under IPSAS 31.

Where the costs incurred in fulfilling a binding arrangement that are within the scope of another IPSAS, an entity shall account for those costs in accordance with those other IPSAS.

Where the costs incurred in fulfilling a binding arrangement that are not within the scope of another IPSAS, the entity applies IPSAS 47 in accounting for those costs.

Under IPSAS 47, the entity should recognize a binding arrangement asset only where the criteria listed above are met. If the criteria do not meet the criteria, the costs are recognized as an expense.

After the binding arrangement asset is recognized, it should be amortized on a systematic basis that is consistent with the satisfaction of the compliance obligation to which it relates. If the compliance obligation is recognized at a point in time, the binding arrangement asset will be fully amortized at that point. If the compliance obligation is satisfied over time, the binding arrangement asset will also be amortized over time and on a similar basis.

An entity may have both a binding arrangement asset and a binding arrangement liability for the same compliance obligation. For example:

- A resource provider transfers resources to the entity prior to the entity satisfying its compliance obligation. The entity will recognize a binding arrangement liability on receipt of the resources.
- The compliance obligation is satisfied at a point in time; until the compliance obligation is fully satisfied, the entity still has a binding arrangement liability, and does not recognize revenue.
- The entity incurs costs in satisfying the compliance obligation. These costs meet the definition of an asset and are recognized as a binding arrangement asset.
- When the compliance obligation is fully satisfied, the entity recognizes revenue and derecognizes the liability. It also amortizes the binding arrangement asset and recognizes an expense.

Costs that relate directly to a binding arrangement include any of the following:

- Direct labor (for example, salaries and wages of employees).
- Direct materials (for example, supplies used).
- Allocations of costs that relate directly to the binding arrangement or to activities within the binding arrangement (for example, costs of management and supervision, insurance and depreciation of tools, equipment and right-of-use assets used in fulfilling the binding arrangement).

- Costs that are explicitly chargeable to the resource provider under the binding arrangement.
- Other costs that are incurred only because an entity entered into the binding arrangement (for example, payments to subcontractors).

An entity must recognize the following costs as expenses when incurred:

- General and administrative costs (unless those costs are explicitly chargeable to the resource provider under the binding arrangement);
- Costs of wasted materials, labor or other resources to fulfill the binding arrangement.
- Costs that relate to satisfied compliance obligations (or partially satisfied compliance obligations) in the binding arrangement (i.e., costs that relate to past fulfillment).
- Costs for which an entity cannot distinguish whether the costs relate to unsatisfied compliance obligations or to satisfied compliance obligations (or partially satisfied compliance obligations).

The costs that relate directly to a binding arrangement and the costs that must be recognized as expenses when incurred are consistent with the requirements in other IPSAS, for example IPSAS 12.

Application of Principles to Specific Transactions

IPSAS 47 includes Application Guidance to assist entities with the application of the principles in IPSAS 47 to specific transactions that are encountered in the public sector. This module covers the most common types of transactions.

Capital Transfers

- A **capital transfer** is an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity
- Recognize revenue as it satisfies its compliance obligations in its capital transfer transaction (as other transactions with binding arrangements)
- Some capital transfer transactions may include a compliance obligation for the operation of the acquired or constructed asset, which would not meet the capital transfer definition
  - Compliance obligations for the operation of an asset are separate compliance obligations

A capital transfer arises from a binding arrangement and imposes at least one compliance obligation on the entity.

Revenue from a capital transfer is recognized on the same basis as any other revenue from a transaction with a binding arrangement. That is, revenue is recognized as compliance obligations are satisfied.

Entities may experience challenges in identifying compliance obligations associated with capital transfers, and allocating the transaction consideration to those compliance obligations. Where an entity is constructing the asset, the binding arrangement may specify key milestones; depending on the terms of the binding arrangement, such milestones may be separate compliance obligations.

Some capital transfer transactions may include a compliance obligation for the subsequent operation of the asset. Such compliance obligations would not meet the definition of a capital transfer.

The entity will need to determine whether the binding arrangement includes one or more compliance obligations relating to the operation of the asset. This is done by assessing whether any of the transaction consideration is associated with the operation of the asset once it has been acquired or constructed.

Any compliance obligations related to the operation of the asset will be separate compliance obligations, and are accounted for in the same way as any other compliance obligation.

Services in-Kind

- An entity may, but is not required to, recognize services in-kind as revenue and as an asset
- Entities are strongly encouraged to disclose services in-kind received particularly if they are integral to an entity's operations
- Examples:
  - Technical assistance from other governments or international organizations
  - Persons convicted of offenses may be required to perform community service
  - Local governments may receive the services of volunteer fire fighters
  - Public schools may receive voluntary services from parents
  - Public hospitals may receive the services of volunteers

Services in-kind are services provided by individuals to public sector entities for no consideration. Some public sector entities may receive services in-kind, and some examples of where this may occur are provided above.

An entity may, but is not required to, recognize services in-kind as revenue and as an asset. Services in-kind may 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. More usually, the entity will recognize revenue and 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.

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.

IPSAS 47 does not require the recognition of services in-kind, but does strongly encourages the disclosure of qualitative information on the nature and type of services in-kind received during the reporting period.

Concessionary Loans

- Loans received at below market terms
  - Portion of the loan that is repayable plus interest is accounted for in accordance with IPSAS 41
  - Difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue except to the extent that conditions result in a liability
  - As liability is reduced an equal amount of revenue recognized
- Accounted for as financial instrument

Concessionary loans are loans received by an entity at below market terms.

The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with IPSAS 41.

An entity considers whether any difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 41) is revenue that should be accounted for in accordance with IPSAS 47. Where an entity determines that the difference between the transaction consideration (loan proceeds) and the fair value of the loan on initial recognition is revenue, an entity recognizes the difference as revenue except if a compliance obligation exists.

Where the terms of the loan result in a compliance obligation, it is recognized as a binding arrangement liability. As the entity satisfies the compliance obligation, the binding arrangement liability is reduced and revenue is recognized.

Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education and housing loans granted to low income families. Entities may receive concessionary loans, for example, from development agencies and other government entities.

Example: Loan to Health Authority

Scenario:

A local health authority receives loan funding of CU5 million from an international development agency. The agreement stipulates that loan should be repaid over the 5 year period. Interest is paid annually in arrears, at a rate of 5% per annum on the outstanding balance of the loan. A market related rate of interest for a similar transaction is 10%. There are no compliance obligations attached to the loan.

Is the loan a concessionary loan? Explain.

Answer:

The loan is a concessionary loan. That is, the interest rate on the loan at 5% is concessionary when the market rate is 10%.

The portion of the loan that is repayable, along with any interest payments, is accounted for in accordance with IPSAS 41. However, the health authority considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is revenue that should be accounted for in accordance with IPSAS 47 (this would be revenue without a binding arrangement as there are no compliance obligations associated with the loan).

Fair value is determined by discounting future cash payments using market related rate of interest.

Presentation in the Financial Statements

- When either party to a binding arrangement has performed, an entity shall present the binding arrangement in the statement of financial position as a binding arrangement asset or a binding arrangement liability, depending on the relationship between the entity's performance and the resource provider's transfer of consideration.
- An entity shall present any unconditional rights to consideration separately as a receivable.

If a resource provider transfers resources before the entity satisfies its compliance obligation, the entity should present a binding arrangement liability in the statement of financial position to represent the position on the binding arrangement. A binding arrangement liability is an entity's obligation to satisfy a compliance obligation for which the entity has received consideration from the resource provider.

If an entity satisfies a compliance obligation before the transfer of consideration is received the entity should present a binding arrangement asset in the statement of financial performance to represent the position on the binding arrangement. The binding arrangement asset will exclude amounts due, which should be presented separately as a receivable. A binding arrangement asset is an entity's right to consideration for satisfying its compliance obligations when that right is conditioned on something other than the passage of time.

The entity will need to assess a binding arrangement asset for impairment in accordance with IPSAS 41. Any impairment of a binding arrangement asset should be measured, presented and disclosed on the same basis as a financial asset. Module 6 explains the impairment of financial assets.

Disclosure Objective

- The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from revenue transactions – requires disclosure of:
    - Revenues from transactions without binding arrangements
    - Revenues from transactions with binding arrangements
    - The significant judgments, and changes in the judgments, made in applying this Standard to those binding arrangements
    - Any assets recognized from the costs to obtain or fulfill a binding arrangement with a resource provider

IPSAS 47 includes a disclosure objective. Disclosures made by an entity should aim to fulfil this objective. The broad categories of information that will need to be disclosed to meet the objective are shown above.

Some information required by IPSAS 47 can be disclosed either on the face of the financial statements or in the notes, while other information should be disclosed in the notes. The main disclosures are set out below:

Disclosures either on the Face of the Statements or in the Notes

Disclose either on the face of the financial statements or in the notes:

- The amount of revenue from transactions recognized during the period, showing separately, and by major classes:
  - Taxes
  - Other compulsory contributions and levies
  - Transfers
  - Compliance obligations in a binding arrangement
- The amount of receivables recognized at the reporting date in respect of revenue
- The amount of liabilities recognized at the reporting date in respect of transferred assets subject to compliance obligations
- The amount of liabilities recognized at the reporting date in respect of concessionary loans that are subject to requirements on transferred assets
- The existence and amounts of any advance receipts in respect of transactions
- The amount of any liabilities forgiven

Disclosures in the Notes

Disclose in the notes to the financial statements:

- The accounting policies adopted for the recognition of revenue;
- The judgments, and changes in the judgments, made in applying this Standard that significantly affect the determination of the amount and timing of revenue;
- For major classes of revenue from transactions, the basis on which the transaction consideration of inflowing resources was measured
- Qualitative and quantitative information about services in-kind that have been recognized
- For major classes of revenue from taxation other compulsory contributions and levies that the entity cannot measure reliably during the period in which the triggering event occurs, information about the nature of the tax, or other compulsory contribution or levy
- The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received

IPSAS 47 includes more detailed disclosure requirements, including specific disclosure requirements for revenue without binding arrangements and revenue with binding arrangements.

Discussion and Questions

That concludes our module on revenue. Participants should refer to the review questions to test themselves on their knowledge.

Visit the IPSASB webpage.

http://www.ipsasb.org

Review Questions

Question 1

A local government bills and collects property taxes on behalf of a state government for education purposes. The local government remits taxes collected to the state government on a quarterly basis based on the tax rate set by the state and property assessed values. The local government charges back for any uncollectible education taxes.

Is the education tax revenue of the local government?

Question 2

The national government (transferor) lent a local government (reporting entity) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government notifies the local government that it is forgiving the loan. There are no terms relating to the use of the funds attached to the forgiveness of the loan.

How does the local government account for the loan forgiveness transaction? Why?

Question 3

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

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

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

Does the transfer include a binding arrangement that needs to be accounted for by the state government social housing entity? Why?

Question 4

A national government 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 preceeding year. The tax law sets the estimate as the amount due for the most recently completed assessment, plus one tenth. After the end of the tax period, self-employed taxpayers file their tax returns and receive refunds, or pay additional tax to the national government.

How should the national government account for the funds received from self-employed taxpayers? Why?

Question 5

An entity recognizes an asset and revenue from taxes when the taxable event subject to taxation occurs. A national government levies a tax on income at 25%. It requires taxpayers to make quarterly installments of estimated taxes payable for the tax year. Tax returns must be filed by April 30 and the balance of taxes paid by June 30 in the year following. The taxable event occurs when

a) **Individuals file their annual tax returns**

b) **Individuals make quarterly installments**

c) **Individuals make their final payment**

d) **Individuals earn taxable income?**

Question 6

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

When does the local government recognize an asset and revenue? Why?

Question 7

A national government provides CU10 million to a provincial government to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows:

- **a)** 40 percent for existing railroad and tramway system modernization;
- **b)** 40 percent for a new railroad or tramway system; and
- **c)** 20 percent for the purchase of rolling stock.

Under the terms of the binding arrangement, the money can only be used as specified and any misused or unused amounts must be repaid to the national government. Furthermore, the provisional government is required to include a note in its audited general purpose financial statements detailing how the transferred resources were spent.

How should the provincial government account for the transfer from the national governmnet, both initially and subsequently? Explain?

Question 8

A public sector payroll service center enters into a binding arrangement to provide monthly payroll processing services to a local government's Department of Education for one year.

How should the payroll service center account for revenue under the binding arrangement? Why?

Question 9

A municipality owns and manages public swimming pools and enters into a binding arrangement with a member of the public for one year of access to any of its pools. The member of the public has unlimited use of the pools and promises to pay an access fee of CU100 per month.

The municipality determines that its promise to the member of the public is to make the pools available for the member of the public to use as and when the member of the public wishes. The extent to which the member of the public uses the pools does not affect the amount of the remaining services to which the member of the public is entitled. The municipality concludes that the member of the public simultaneously receives and consumes the economic benefits or service potential as it performs by making the pools available. Consequently, the municipality's compliance obligation is satisfied over time.

How should the municipality measure its progress towards complete satisfaction of the conpliance obligation? Explain?

Question 10

An international aid organization enters into a binding arrangement with a government, under which the government agrees to construct and operate a library for a minimum of 10 years. The terms of the binding arrangement include:

a) The funding amount is CU32 million, based on budgeted construction costs of CU20 million, construction-related overhead costs of CU2 million, and a subsidy of CU10 million to cover some of the costs of operating the building as a public library for the first 10 years after completion of the building.
b) Throughout the 10-year period, the government is required to provide evidence that the building has been operated as a public library.
c) If the government stops operating the building as a library at any time during the 10-year period, it is required to repay a portion of the CU10 million operating transfer to the international aid organization, based on the amount of time remaining in the 10-year period.
d) The international aid organization is to transfer the entire CU32 million to the government at the beginning of the construction period. The government is required to provide information regarding construction progress to the international aid organization.

How should the government account for the binding arrangement? Explain?

Answers to Review Questions

Question 1

Education taxes billed and collected on behalf of the state government are not revenues of the local government. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as an agent of the government or another government organization or on behalf of other third parties are not economic benefits or service potential that flow to the local government, and do not result in increases in assets or decreases in liabilities. This is because the local government cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives. The local government is not exposed to significant credit risk. Therefore, they are excluded from revenue.

Question 2

When it receives the notification from the national government, which communicates its decision to forgive the loan, 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.

Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Question 3

The state government social housing entity first needs to decide whether the revenue transaction has a binding arrangement or not.

The terms in the transfer agreement are stated so broadly as to not impose a compliance obligation on the recipient, as the entity can effectively do anything within its mandate with the funds Consequently, the transfer agreement results in a revenue transaction without binding arrangements.

The state government social housing entity has no liability associated with the transfer, and therefore recognizes revenue when it receives the funds.

The state government social housing entity recognizes an increase in an asset (cash) and revenue in the amount of CU50 million when it receives the cash.

Question 4

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

Question 5

The answer is (d).

Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of the occurrence of the taxable event that the government, legislature, or other authority has determined will be subject to taxation.

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.

Question 6

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

Question 7

The provincial government initially recognizes the inflow of CU10 million as an asset, and an equivalent binding arrangement liability because it has obligations to satisfy the compliance obligations in the binding arrangement. In addition, the funds must be returned to the national government is they are either misused or unused. The national government can therefore enforce the provincial government's compliance obligations.

The provincial government needs to identify its distinct compliance obligations in the binding arrangement.

The provincial government observes that the nature of its promise in the binding arrangement is to use the resources in three individually specific ways rather than in a combined manner.

The goods and services to modernize the existing railroad and tramway system represent a single combined output: the modernization of the existing system. The provincial government integrates these goods and services into a single output that is separately identifiable. Similarly, the goods and services to build a new railroad or tramway system represent a single combined output, and the purchase of rolling stock represents a single output. These three outputs are distinct, with no integration of the outputs required.

The provincial government concludes that the binding arrangement contains three separate compliance obligations;

a) The compliance obligation to use CU4 million for modernizing the existing railroad and tramway system;
b) The compliance obligation to use CU4 million for a new railroad or tramway system; and
c) The compliance obligation to use CU2 million for purchasing rolling stock.

The provincial government allocates the transaction consideration (CU10 million) to the compliance obligations. This is straightforward, as the compliance obligations are expressed in terms of using a specified amount of the transaction consideration, and it follows that the stand-alone value of the goods ans services used will match the amounts specified.

Subsequently, the provincial government reduces the liability as or when it satisfies the compliance obligations, and recognizes revenue in the statement of financial performance of the reporting period.

Question 8

The promised payroll processing services are accounted for as a single compliance obligation. The compliance obligation is satisfied over time because the department simultaneously receives and consumes the economic benefits or service potential of the payroll service center's performance in processing each payroll transaction as and when each transaction is processed. The payroll service center recognizes revenue over time by measuring its progress towards complete satisfaction of that compliance obligation.

Question 9

The municipality determines that the member of the public consumes economic benefits or service potential from the municipality making the pools available throughout the year. That is, the member of the public benefits from having the pools available, regardless of whether the member of the public uses them or not. Consequently, the municipality concludes that the best measure of progress towards complete satisfaction of the compliance obligation over time is an output method, specifically a time-based measure.

The municipality recognizes revenue on a straight-line basis throughout the year at CU100 per month.

Question 10

In this scenario, the government considers the substance of the transaction in accordance with the terms of the binding arrangement and concludes that the binding arrangement consists of two compliance obligations: the construction of the building and the operation of the building as a library for a 10-year period. The government allocates CU22 million to the construction of the building and CU10 million to its operation as a public library in line with the terms of the binding arrangement.

For the compliance obligation relating to the construction of the building (a capital transfer), the government recognizes a liability of CU22 million upon receipt of the funds. The government then derecognizes the CU22 million liability (and recognizes the amounts as earned revenue) over the construction period based on its construction progress as determined by the direct construction costs incurred.

For the compliance obligation relating to the operation of the building as a library, the government determines that this compliance obligation is satisfied as the building is being operated as a library during the 10-year period, and therefore recognizes a CU10 million liability upon initial receipt of the funds. After construction has been completed, the government will derecognize CU1 million liability per year as it operates the building as a public library and recognize the amount as earned revenue.

Introduction to Revenue (IPSAS 9 and IPSAS 23)

Note that IPSAS 9 and IPSAS 23 will be withdrawn from January 2026

This section is intended to be used only by those entities already in the process of adopting IPSAS 9 and IPSAS 23

Revenue

IPSAS 9 and IPSAS 23 will be withdrawn from January 2026. Any entities that have not yet started adopting the IPSAS revenue requirements are strongly advised to move directly to IPSAS 47. The following sections are provided to assist those entities that have already started implementing IPSAS 9 and IPSAS 23, but such entities should note that they will need to adopt IPSAS 47 at a later date.

Information on revenues is important in assisting users to assess the financial condition and performance of public sector entities. Comparing revenues with expenses helps users to assess whether current revenues are sufficient to cover the costs of programs and services provided in the current period. Information on revenues is also important to the assessing the impact of taxation and other revenues on the economy or the need for borrowing in the long- term. The material in this module identifies and discusses the definition and the issues arising in reporting revenues that result from the unique types and nature of public sector revenues.

Public sector entities have some revenues which have exact equivalents in the for-profit sector and which can, under full accrual basis of accounting, be given the same accounting treatment. For example, public sector entities may have revenue from sales of goods and services, interest and dividends. In these transactions, the consideration exchanged is approximately of equal value to the goods and services received. However, the majority of governmental revenues are non-reciprocal transfers such as taxes, fees, duties, and fi es obtained through the exercise of the sovereign powers.

The existence of an exchange relationship in non- reciprocal transfers is tenuous. While it could be argued that a government receives taxation revenues in return for goods and services, (e.g. roads, health care, education, law enforcement, defense, etc.), the citizens who pay for the services are not necessarily the beneficiaries of them. Payment of tax does not necessarily entitle the taxpayer to an equivalent value of services or benefits.

This module focuses on requirements of IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Specific topics include:

- Scope of standards
- Definitions
- Recognition and measurement of revenues
- Recognition of transfers with stipulations and conditions
- Expenses paid through the tax system and tax expenditures

Learning Objective

- IPSAS 9, *Revenue from Exchange Transactions*
- IPSAS 23, *Revenue from Non-Exchange Transactions*
    - At the end of this session you are able to
    - distinguish between exchange and non-exchange revenues
    - apply the requirements for identification, recognition and measurement of revenues
    - apply the presentation and disclosure requirements for reporting revenues

Common types of revenue for public sector entities include:

Non-exchange revenues: (IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)*)

(v) Direct and indirect taxes;

(vi) Duties;

(vii) Fees and fines; and

(viii) Other non-reciprocal transfers.

Exchange revenues: (IPSAS 9, *Revenue from Exchange Transactions*)

(iii) Sales of goods or services;

(iv) Dividends;

(v) Interest; and

(vi) Net gains arising from the sale of assets.

Gains:

(iv) Increases in fair value of financial instruments; (IPSAS 29, *Financial Instruments: Recognition and Measurement*)

(v) Foreign exchange gains; (IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*) and

(vi) Other gains. (for example, gains on sale of assets under IPSAS 17, *Property, Plant and Equipment*) (Study 14, chapter 8, page 167, paragraph 8.2)

Module focus on requirements of IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 23, *Revenue from Non- Exchange Transactions (Taxes and Transfers)*. Most public sector entities will have some form of non-exchange revenue, and for many, it will be their main source of revenue. Emphasis is placed on recognition of revenues from non-exchange transactions because this is one area that is likely to cause a significant change when entities are transitioning to a full accrual basis of accounting.

- IPSAS 9, *Revenue from Exchange Transactions* prescribes the accounting treatment of revenue arising from exchange transactions and events
- IPSAS 23, *Revenue from Non-Exchange Transactions* prescribes requirements for the financial reporting of revenue arising from non-exchange transactions.

At the end of this session participants are able:

- To distinguish between exchange and non-exchange revenues and understand the impact this has on accounting and reporting of revenues;
- To apply the requirements for identification, recognition and measurement of revenues.
- Are able to apply the presentation and disclosure requirements for reporting revenues.

Definition of Revenue

- Gross inflow of economic benefits or service potential resulting in increases in net assets/equity
- Excludes contributions from owners
- All items of revenue included in surplus or deficit for the period
- Excludes amounts collected as an agent and financing inflows
- When collection not probable, expense recognized

Background:

- Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in increases in net assets/equity
- Revenue excludes increases in net assets/equity relating to contributions from owners.
- All items of revenue recognized in a period shall be included in surplus or deficit, unless an IPSAS requires otherwise.

Normally, all items of revenue recognized in a period are included in surplus or deficit. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period.

IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* deals with two such circumstances: the correction of errors and the effect of changes in accounting policies. Other examples include revaluation increases and decreases and particular foreign exchange differences to be recognized directly as changes in net assets/equity.

- Amounts collected as an agent do not give rise to an increase in net assets or revenue

Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as an agent of the government or another government organization or on behalf of other third parties; for example, the collection of telephone and electricity payments by the post office on behalf of entities providing such services are not economic benefits or service potential that flow to the entity, and do not result in increases in assets or decreases in liabilities. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives. Therefore, they are excluded from revenue.

An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fi ed fee per transaction or a stated percentage of the amount billed to the customer. For example, the entity does not have:

a) the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;

b) inventory risk before or after the customer order, in shipping or on return;

c) discretion in establishing prices, either directly or indirectly, for example by providing additional goods or services;

d) customer's credit risk.

Similarly, in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal that do not result in increases in net assets/equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received, or receivable, for the collection or handling of the gross flows.

- Financing inflows are not revenues because they have no impact upon net assets/equity (affect asset and liability only)

Financing inflows, notably borrowings, do not meet the definition of revenue because they (a) result in an equal change in both assets, and liabilities and therefore (b) have no impact upon net assets/equity. Financing inflows are taken directly to the statement of financial position and added to the balances of assets and liabilities.

- The amount of revenue recognized for which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Illustrative Example

Scenario:

A municipality collects education property taxes on behalf of the state. During the year it billed residential and commercial property taxes of CU 1,116,644 million. Of that amount, CU 527,442 was billed on behalf of the state.

How much would it report as revenue for the fiscal period from property taxes? Explain.

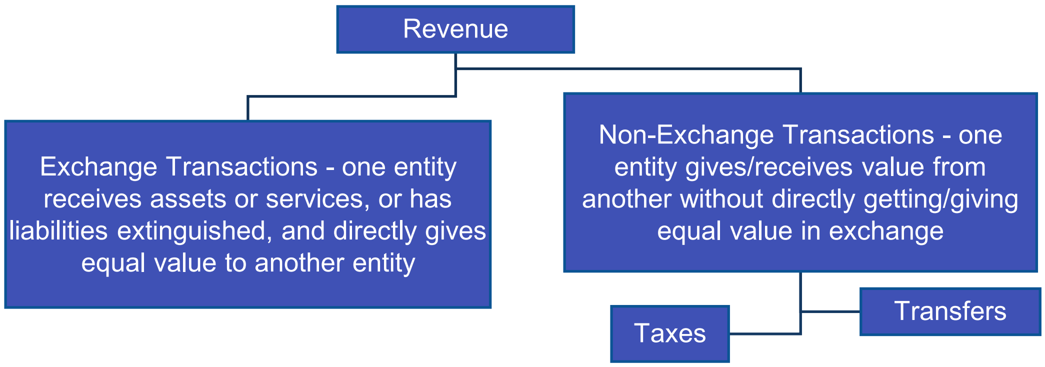
a) CU 1,116,644

b) CU 589,202.

Answer:

The answer is (b). The property taxes billed on behalf of the state does not result in gross inflows of economic benefits or service potential by the entity on its own account. Amounts collected as an agent of the state are not economic benefits or service potential that flow to the municipality, and do not result in increases in its assets or decreases in liabilities. This is because the municipality cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives. Therefore, they are excluded from revenue.

Types of Revenue



Public sector entities may derive revenues from exchange or non-exchange transactions.

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.

Applies to:

a) rendering of services;

b) sale of goods including the sale of land and other property held for resale; and

c) use by others of entity assets yielding interest, royalties, and dividends or similar distributions.

Rendering of services typically involves the performance by an entity of an agreed task over an agreed period of time. The services may be rendered within a single period, or over more than one period. Examples of services rendered by public sector entities may include the provision of housing, management of water facilities, management of toll roads, and management of transfer payments.

Goods include:

a) Goods produced by the entity for the purpose of sale, such as publications, and

b) Goods purchased for resale, such as merchandise or land and other property held for resale.

The use by others of entity assets gives rise to revenue in the form of:

a) Rent – The lease of property, plant, and equipment at market rates (other than those under lease

b) Interest – charges for the use of cash or cash equivalents, or amounts due to the entity;

c) Royalties – charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights, and computer software; and

d) Dividends or equivalents – distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

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.

Examples of non-exchange transactions are:

a) Taxes; and

b) Transfers (whether cash or noncash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, and the off-market portion of concessionary loans received.

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 are the major source of revenue for many governments and other public sector entities. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers. Taxes satisfy the definition of non-exchange transaction because the taxpayer transfers resources to the government, without receiving approximately equal value directly in exchange. While the taxpayer may benefit from a range of social policies established by the government, these are not provided directly in exchange as consideration for the payment of taxes.

Taxes do not include fi es or other penalties imposed for breaches of the law. Noncompulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Transfers include grants, debt forgiveness, fi es, bequests, gifts, donations, and goods and services in-kind.

Transfers 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. 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.

There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. For example, an entity receives a loan from another entity, but only is required to repay a portion.

There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions.

Governments may charge for goods and services provided to other entities or directly to members of the public. The sale of goods is normally classified as an exchange transaction. In some cases, a government will charge a price for goods or services which does not relate to the cost of providing the goods or services or does not relate to the price a recipient is willing to pay. For example, a government may provide goods and services at a price which is well below cost. The government may be subsidizing the consumer in order to meet other economic or social objectives. Because a government has the ability to raise taxes, it can continue in operation even when expenses exceed non-tax revenues.

If the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods or services sold, that transaction falls within the definition of a non-exchange transaction that is accounted for in accordance with IPSAS 23.

In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction professional judgment is exercised. An entity 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.

Recognizing Non-Exchange Transactions

- Analyze non-exchange transactions
  - Do resource inflows meet definition and criteria for recognition of an asset
  - Is there a performance obligation that requires recognition of a liability
- Measured at the amount of increase in net assets
- Inflow is probable and fair value is measurable
- Outflow is probable and amount estimable

There are two different approaches to revenue recognition under IPSAS 9 and IPSAS 23. IPSAS 9 takes an earnings approach whereby revenue is recognized when it is earned. IPSAS 23 takes a performance obligation approach. Under IPSAS 23 revenue is recognized when the entity has satisfied the performance obligations associated with the non-exchange revenue.

IPSAS 23 requires that:

a) entities analyze inflows of resources from non-exchange transactions to determine if they meet the definition of an asset and the criteria for recognition as an asset;

b) if the inflows result in recognition of an asset, entities determine whether a performance obligation is created that requires a liability to be recognized;

c) assets recognized initially be measured at their fair value as at the date of acquisition;

d) liabilities recognized as a result of a non-exchange transaction be recognized in accordance with the principles established in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;

e) revenue equal to the increase in net assets associated with an inflow of resources be recognized.

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 non-exchange transaction results in de-recognition of a liability. Both will result in an increase in the net assets/equity of the entity and recognition of revenue.

The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control. An entity has control of resources when it can exclude access to them by the transferor. The entity will need to establish enforceability of its control of resources before it can recognize an asset.

Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, will assets, liabilities, and/or revenue be recognized. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

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. An entity will need to establish enforceability of its control of resources before it can recognize an asset.

Enforceability may be contained in legislation or in binding agreements. Generally governing legislation or regulations identify specific eligibility criteria that recipients must meet to be entitled to receive a transfer. Once those criteria have been met, the recipient is entitled to receive the transfer and the transferor must make the transfer to all entities who meet the specified eligibility criteria. Once an entity meets the eligibility criteria under the legislation or binding agreement, it may have enforceable control of resources.

For example, the terms of shared cost agreements are usually negotiated and agreed upon in the signed contract. The transferor may agree to pay for all or only a portion of the eligible expenditures. There may be a ceiling on the total amount that will be shared.

Under shared cost agreements the recipient is entitled to a transfer of resources once it has incurred eligible expenditures. At the point when the recipient makes eligible expenditures under the agreement it controls the resources that the transferor has agreed to share pursuant to the shared cost agreement. Under the agreement, the government must reimburse the recipient for the specified percentage of those eligible expenditures.

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset is 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.

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. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition.

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

An asset acquired through a non-exchange transaction is initially measured at its fair value at the acquisition date. Fair value most faithfully represents the actual value the public sector entity accrues as a result of the transaction.

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.

The recognition and measurement of assets at fair value is consistent with other IPSASs. Inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, *Inventories* and IPSAS 16, *Investment Property*. Initial measurement of assets acquired through non- exchange transactions at their fair value is consistent with the approach taken in IPSAS 17, *Property, Plant and Equipment*, for assets acquired at no cost or for a nominal cost. 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 IPSAS 29, *Financial Instruments; Recognition and Measurement* (or IPSAS 41, *Financial Instruments* when that IPSAS is applied).

Transfers include services in-kind. Services in-kind are services provided by individuals or entities 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. 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, entities may, but are not required, to recognize services in-kind. Entities are encouraged to disclose the nature and type of services in-kind received during the reporting period.

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 unless it is also required to recognize a liability. If an entity is required to recognize a liability, the difference between the amount of the asset and the amount of the liability is the increase in net assets resulting from the non-exchange transaction. When an entity recognizes an increase in net assets as a result of a non-exchange transaction, it recognizes revenue.

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity.

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 on how resources are to be used 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.

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 will reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

When a liability is subsequently settled, the amount of the reduction in the liability will be recognized as revenue.

The recognition criteria for a liability are the same as the general recognition criteria under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

A present obligation arising from a non-exchange transaction that meets the definition of a liability is 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.

The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized.

Accounting for Announcement

Scenario:

A senior level of government has made an announcement that it will include additional operating funds in its next budget for local housing authorities to allow them to increase subsidies to low income families.

Do local housing authorities have an inflow of resources that meet the definition of an asset as a result of the announcement? Explain.

Answer:

Local housing authorities do not have an enforceable claim against the senior government that gives them control over the resource.

An announcement of an intention to transfer resources to local housing authorities is not of itself sufficient to identify resources as controlled by the housing authorities. There does not appear to be legislation in place. That is, there is no appropriations act or other authority for the senior government to make the transfer. The government announcement is not specific such that it creates a valid expectation among the local housing authorities that the senior government will fulfill its obligation. The announcement does not, for example identify;

a) specific local housing authorities that will receive additional funding

b) the amount of the additional funding

c) the time period over which the funding will be provided.

Discussion and Questions

That concludes our introduction to revenue. Participants should refer to the review questions to test themselves on their knowledge.

Visit the IPSASB webpage.

http://www.ipsasb.org

Review Questions

Question 1

A local government bills and collects property taxes on behalf of a state government for education purposes. The local government remits taxes collected to the state government on a quarterly basis based on the tax rate set by the state and property assessed values. The local government charges back for any uncollectible education taxes.

Is the education tax revenue of the local government?

Answers to Review Questions

Question 1

Education taxes billed and collected on behalf of the state government are not revenues of the local government. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as an agent of the government or another government organization or on behalf of other third parties are not economic benefits or service potential that flow to the local government, and do not result in increases in assets or decreases in liabilities. This is because the local government cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives. The local government is not exposed to significant credit risk. Therefore, they are excluded from revenue.

Revenue from Exchange Transactions (IPSAS 9)

Note that IPSAS 9 will be withdrawn from January 2026

This section is intended to be used only by those entities already in the process of adopting IPSAS 9

Accounting for Exchange Transactions – IPSAS 9

As noted, 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.

Applies to:

a) rendering of services;

b) sale of goods including the sale of land and other property held for resale; and

c) use by others of entity assets yielding interest, royalties, and dividends or similar distributions.

Recognition and Measurement

- Revenue recognized from
  - Rendering of services on percentage completion method
  - Sale of goods when significant risks and rewards of ownership and effective control transferred
  - Interest on time proportion basis using effective yield
  - Royalties as earned
  - Dividends when right to receive payment established
- Measured at fair value of consideration
- Recognized when recognition criteria met

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity. In most cases, the consideration is in the form of cash or cash equivalents, and the amount of revenue is the amount of cash or cash equivalents received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service.

Rendering Services

- Recognize by reference to stage of completion at reporting date
- Conditions:
  - Amount of revenue can be measured reliably
  - Probable that service potential or economic benefits will flow to the entity
  - Stage of completion can be measured reliably
  - Costs incurred and costs to complete can be measured reliably

When a transaction involves the rendering of services, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the reporting date. Under this method, revenue is recognized in the reporting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

For example, an entity providing property valuation services would recognize revenue as the individual valuations are completed.

Under the percentage completion method, revenue is recognized when the outcome of a transaction can be estimated reliably. The outcome of a transaction can be estimated reliably when:

a) The amount of revenue can be measured reliably;

b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;

c) The stage of completion of the transaction at the reporting date can be measured reliably; and

d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Estimates of the revenue are made by reference to agreement with the other parties to the transaction. An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

a) Each party's enforceable rights regarding the service to be provided and received by the parties;

b) The consideration to be exchanged; and

c) The manner and terms of settlement.

When services are performed by an indeterminate number of acts over a specified time frame, the stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:

a) Surveys of work performed;

b) Services performed to date as a percentage of total services to be performed; or

c) The proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.

Examples of Rendering Services

- Housing
- Transportation
- Managing toll roads
- Financial services fees
- Admission fees
- Tuition fees
- Franchise or concession fees

See the implementation guidance in IPSAS 9 for several examples and general guidance on recognition.

Sale of Goods

- Recognize revenue from the sale of goods when all the following conditions have been satisfied:
    - The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
    - The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
    - The amount of revenue can be measured reliably;
    - It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
    - The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The assessment of when an entity has transferred the significant risks and rewards of ownership to the purchaser requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the purchaser. This is the case for most sales.

Other Exchange Revenues

- Interest
- Royalties
- Dividends

Interest is recognized on a time proportion basis that takes into account the effective yield on the asset.

The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset. Interest revenue includes the amount of amortization of any discount, premium, or other difference between the initial carrying amount of a debt security and its amount at maturity. When unpaid interest has accrued before the acquisition of an interest bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognized as revenue.

Royalties are recognized as they are earned in accordance with the substance of the relevant agreement.

Dividends or their equivalents are recognized when the shareholder's or the entity's right to receive payment is established.

The general recognition criteria apply. Revenue would be recognized when it is probable that the economic benefit or service potential associated with the transaction will flow to the entity and the amount can be measured reliably.

Revenue Recognition

Scenario:

A government treats and distributes water for residential and commercial use. Water consumption is metered.

Users are billed in arrears on a quarterly basis. The billing cycle is staggered so that meter readings are taken and invoices issued 15 days after the quarter end for each group of consumers. Revenue is posted to the general ledger when invoices are issued. From past experience, water consumption is spread evenly over the billing period. The estimated unbilled consumption for Group A for Dec 20X1 is CU 200,000. Invoices are due in thirty days. The fiscal period ends December 31, 20X1.

Billing Group	Invoice Date	Consumption Period	Due Date	Amount (CU)
Group A	Dec 15, 20X0	Sept-Oct-Nov	Jan 15, 20X1	900,000
Group B	Jan 15, 20X1	Oct-Nov-Dec	Feb 15, 20X1	1,000,000
Group C	Feb 15, 20X1	Nov-Dec-Jan	Mar 15, 20X1	1,200,000

What adjustment should be made to revenue for the period ended Dec 31, 20X1? Explain.

The entity should accrue revenue for the year ended Dec 31, 20X1 of CU 2,000,000 as follows:

Billing Group	Invoice Date	Consumption Period	Due Date	Amount (CU)	Period end accrual (CU)
Group A	Dec 15, 20X0	Sept-Oct-Nov	Jan 15, 20X1	900,000	200,000[1]
Group B	Jan 15, 20X1	Oct-Nov-Dec	Feb 15, 20X1	1,000,000	1,000,000[2]
Group C	Feb 15, 20X1	Nov-Dec-Jan	Mar 15, 20X1	1,200,000	800,000[3]
Total					2,000,000

[1] Unbilled consumption for Group A

[2] Consumption for 3 months ended Dec 31 billed January 15

[3] Estimated consumption for Group C for Nov and Dec 20X0 (Feb 15, 20X1 billing/3 months * 2 months)

Interest Revenue

Scenario:

A public sector entity holds a debenture purchased January 1, 20X0. The cost was CU100,000. The public sector entity will receive a payment of CU 115,763 on maturity on its third anniversary. The debenture has a coupon rate of zero (i.e. it is ‘interest-free’). Present value financial tables have been used to determine that the effective yield is 5%.

What are the interest revenue, interest accrual and carrying amount of the debenture at the end of each of the 3 years to maturity? Explain. (For ease of calculation interest is accrued on an annual basis and not prorated on days in period.)

	Interest Revenue CU	Carrying Amount CU
Jan. 1, 20X0		100,000
Dec. 31, 20X0	?	?
Dec. 31, 20X1	?	?
Dec. 31, 20X2	?	?

Answer:

The effective rate is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset

Year	Calculation	Carrying Amount CU	Interest Revenue CU
January 1, 20X0		100,000	
December 31, 20X0	CU 100,000 *5% effective rate	105,000	5,000
December 31, 20X1	CU 105,000 *5% effective rate	110,250	5,250
December 31, 20X2	CU 110,205* 5%% effective rate	115,763	5,513

Illustrative Note Disclosure

The illustrative note highlights the following note disclosure requirements in IPSAS 9:

An entity shall disclose:

a) The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

b) The amount of each significant category of revenue recognized during the period, including revenue arising from:

   (i) The rendering of services;

   (ii) The sale of goods;

   (iii) Interest;

   (iv) Royalties; and

   (v) Dividends or their equivalents; and

c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

The following example shows a sample note that an entity might be used to explain the items reported on the statement of performance as sales of goods and services. The accounting policy for recognition of revenue from exchange transactions is likely to be included in the accounting policy note to the financial statements.

Note X – Sales of Goods and Services

Revenue is recognized when services are rendered or title to goods is transferred.

The revenue reported is comprised of the following items

	20X1 (CU)	20X1 (CU)
Water and sewage charges	209,249	186,559
Transit fares	96,660	90,828
Other	49,202	45,539
Total	355,111	322,926

Discussion and Questions

That concludes our module on revenue from exchange transactions. Participants should refer to the review questions to test themselves on their knowledge.

Visit the IPSASB webpage.

http://www.ipsasb.org

Review Questions

Question 1

A secondary institution collects tuition fees at the beginning of each semester. The fees payable are for the fair value of the instruction. There are no refunds once the semester begins. The revenue is recognized:

a) **In the period in which the fees are collected.**

b) **Over the period of instruction.**

c) **At the beginning of the semester.**

d) **At the end of the semester.**

Answers to Review Questions

Question 1

The answer is (b).

As the fees payable are for the fair value of the instruction, the transaction is an exchange transaction accounted for under IPSAS 9

The percentage of completion method is used to recognize revenue. Under this method, revenue is recognized in the reporting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

Revenue from Non-Exchange Transactions: Taxes (IPSAS 23)

Note that IPSAS 23 will be withdrawn from January 2026

This section is intended to be used only by those entities already in the process of adopting IPSAS 23

Accounting for Non-Exchange Transactions

Issues associated with accounting for revenues from non-exchange transactions include classification, determining recognition points, and measurement at initial recognition.

These inflows from non-exchange transactions, as with inflows from exchange transactions, have to be distinguished from financing inflows such as borrowings and custodial receipts, for example taxes collected as an agent of another entity. These latter transactions are not revenues of the entity.

Accounting for Taxes

- Entity that imposes taxes recognizes the assets when
  - Taxable event occurs
  - Recognition criteria satisfied
- Taxable event – event subject to taxation
- Assets measured at fair value at acquisition date - best estimate of the inflow taking into account
  - Probability resources will flow
  - Fair value of resultant assets
- Revisions accounted for in current period

An entity that imposes taxes recognizes an asset in respect of taxes when the taxable event occurs, and the asset recognition criteria are met.

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.

When 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.

Similarly, when 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.

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.

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

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.

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:

g) Income tax is the earning of assessable income during the taxation period by the taxpayer;

h) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

i) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

j) Customs duty is the movement of dutiable goods or services across the customs boundary;

k) Death duty is the death of a person owning taxable property; and

l) 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.

The fair value of assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. The best estimate will take account of both the probability that the resources will flow to the government, and the fair value of the resultant assets.

Reporting entities have to develop accounting policies for the measurement of assets arising from taxation that measures them at their fair value as at the date of acquisition. Reliably measuring the assets arising from taxation transactions and the related revenue is challenging because information may not become available until sometime after the taxable event occurs. For example, the amount of income tax owed by taxpayers is not known until tax returns are filed and assessed.

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:

d) The tax law allowing taxpayers a longer period to file returns than the government is permitted for publishing general purpose financial statements;

e) Taxpayers failing to file returns on a timely basis;

f) Valuing nonmonetary assets for tax assessment purposes;

g) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;

h) 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;

i) The tax law permitting taxpayers to defer payment of some taxes; and

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

In some cases, the assets arising from taxation transactions and the related revenue cannot be reliably measured until sometime after the taxable event occurs. Consequently the recognition criteria may not be satisfied until a subsequent period or when payment is received or receivable. 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.

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.

When assets and revenue arising from taxation transactions are measured using statistical models, the actual amount realized in subsequent reporting periods may be different from the estimated amounts determined as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made prospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Illustrative Example

Scenario:

A national government levies a tax on the income of individuals. The fiscal period of the government and the tax year end is December 31. Taxpayers have until April 30 of the following year to file their tax return, and until June 30 to pay any outstanding taxes.

Does the national government recognize an asset and revenue at the fiscal period end? Explain.

Answer:

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 returns of individuals will not be filed until April 30 of the following year, the government is unable to directly measure the income tax receivable at December 31. It could wait until all tax returns have been filed and processed to finalize its financial statements. This may not satisfy the qualitative characteristic of financial information, that is, that it be timely. The government develops a statistical model to indirectly measure income taxation revenue receivable.

The government uses the income tax collection statistical history, 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 and banking statistics collected by the central bank. This government may enlist the assistance of econometricians in developing the model.

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

In these circumstances, estimates of tax revenue for one reporting period may be revised in a subsequent period. Changes in estimates are recognized prospectively in accordance with IPSAS 3, *Accounting Policies, Accounting Estimates and Errors*.

Other Tax Accounting Issues

- Resources received prior to the taxable event are recognized as advance receipts of taxes
- Taxation revenue is gross amount
  - Not reduced for expenses paid through the tax system
  - Not grossed up for tax expenditures
- Taxes levied for specific purposes

Resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts), because

(iii) the event that gives rise to the entity's entitlement to the taxes has not occurred, and

(iv) the criteria for recognition of taxation revenue have not been satisfied.

Consistent with the definitions of assets, liabilities, resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied, 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.

Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system. Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

In some jurisdictions, the government uses the tax system as a convenient method of paying benefits to taxpayers that would otherwise be paid using another payment method, such as writing a check, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer.

The key is that expenses paid through the tax system are available to recipients irrespective of whether they pay taxes or use a particular mechanism to pay their taxes. IPSAS 1 prohibits the offsetting of items of revenue and expense unless permitted by another standard. Therefore offsetting of tax revenue and expenses paid through the tax system is not permitted.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. In most jurisdictions, governments use the tax system to encourage certain financial behavior and discourage other behavior. 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.

Some taxes are levied for specific purposes. Generally, taxes levied for a specific purpose do not create a performance obligation that requires a liability to be recognized. If the government is required to recognize a liability relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the performance obligation 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 on how the resources are used. The entity retains discretion in how it uses the resources. If the resources are not used for the intended purpose, there is no obligation to return the resources. The specific purposes amount to restrictions not conditions. See the discussion on stipulations, conditions and restrictions

Tax Expenditure/Expense

Scenario:

A national government permits individual taxpayers who are homeowners to deduct mortgage interest and property taxes from their gross income when calculating tax-assessable income. The policy has been adopted to encourage home ownership.

3. Is the deduction a tax expense or expenditure? Explain.
4. How should the national government account for and report the impact of the deduction of tax revenues? Explain.

Answer:

The impact on tax revenue as a result of the deduction of mortgage interest and property taxes is a tax expenditure. It is a tax concession only available to taxpayers. Taxation revenue shall not be grossed up for the amount of the tax concession. Tax expenditures are not reported in the statement of financial performance. They are forgone tax revenue.

Disclosures

Disclose :

- Revenue from non-exchange transactions
- Receivables recognized
- Amounts of advance receipts
- Amount of liabilities forgiven
- Accounting policies adopted
- Basis on which the fair value was measured
- Information about taxes that cannot be measured reliably

An entity discloses either on the face of, or in the notes to, the general purpose financial statements:

a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:
   (i) Taxes, showing separately major classes of taxes; and
   (ii) Transfers, showing separately major classes of transfer revenue.
b) The amount of receivables recognized in respect of non-exchange revenue;

…

e) The existence and amounts of any advance receipts in respect of non-exchange transactions; and
f) The amount of any liabilities forgiven.

Disclosure in (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. Disclosure of these advance receipts assists users to make judgments about the entity’s future revenue and net asset position.

An entity also discloses in the notes to the general purpose financial statements:

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

b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;

c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and

In many cases an entity will be able to reliably measure assets and revenue arising from taxation transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognized, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgments about the entity's future revenue and net asset position

Illustrative Note Disclosure

Note X: Tax Revenues

Tax revenues are reported net of amounts collected on behalf of provinces. Income tax revenue is recognized when the taxpayer has earned the income. Revenues for the fiscal year are based on amounts assessed and estimates of income tax earned but not yet assessed. Goods and services tax revenue is recognized at the time of sale or provision. Employment insurance premiums are recognized as insurable earnings are earned. Differences between estimates and actual amounts are reported in the period in which the actual assessment is completed.

Tax revenues are summarized in the table below.

	20X1 (000s CU)	20X0 (000s CU)
Income Tax	139,601	151,798
Goods and services tax	26,947	25,740
Employment insurance premiums	40,573	39,806
Total tax revenue	**207,121**	**217,344**

The example illustrates a sample note on accounting policy, recognition and measurement of tax revenues.

The illustrative note shows how an entity discloses 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.

Discussion and Questions

That concludes our module on revenue from exchange transactions. Participants should refer to the review questions to test themselves on their knowledge.

Visit the IPSASB webpage.

http://www.ipsasb.org

Review Questions

Question 1

A national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation. Which of the following is the appropriate accounting for the assets and revenue?

a) **The national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments**

b) **The national government, as agent for the state governments does not recognize assets and revenue. The state governments recognize assets and revenue for the tax.**

Why?

Question 2

An entity recognizes an asset and revenue from taxes when the taxable event subject to taxation occurs. A national government levies a tax on income at 25%. It requires taxpayers to make quarterly installments of estimated taxes payable for the tax year. Tax returns must be filed by April 30 and the balance of taxes paid by June 30 in the year following. The taxable event occurs when

e) **Individuals file their annual tax returns**

f) **Individuals make quarterly installments**

g) **Individuals make their final payment**

h) **Individuals earn taxable income?**

Question 3

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

When does the local government recognize an asset and revenue? Why?

Question 4

A local government levies property tax on July 31, with notices of assessment being sent to property owners in July, and payment due by August 31. It allows taxpayers to pay taxes in monthly installments commencing if October of the preceding year.

When does the local government recognize the revenue for property taxes collected in advance? Why?

Answers to Review Questions

Question 1

The answer is (b).

The national government is the taxing authority that is imposing the sales tax. The national government recognizes assets and revenue for the sales tax. It recognizes a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer.

Question 2

The answer is (d).

Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of the occurrence of the taxable event that the government, legislature, or other authority has determined will be subject to taxation.

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.

Question 3

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

Question 4

The local government recognizes an asset and a liability for the property taxes paid in advance at the time of receipt. It recognizes a reduction in the liability and a corresponding amount as revenue on July 31.

Consistent with the definitions of assets, liabilities, resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts), because (a) the event that gives rise to the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied, 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.

Revenue from Non-Exchange Transactions: Transfers (IPSAS 23)

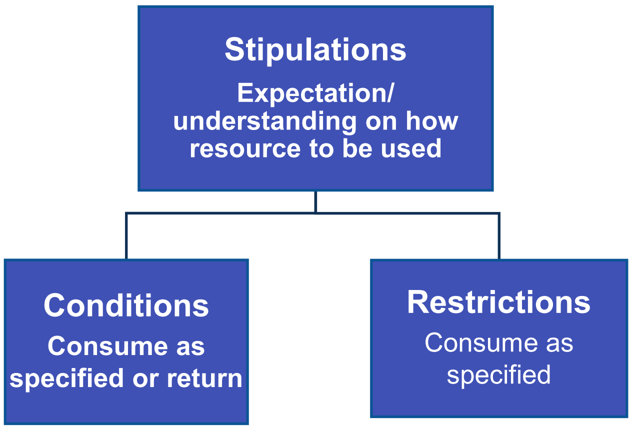
Note that IPSAS 23 will be withdrawn from January 2026

This section is intended to be used only by those entities already in the process of adopting IPSAS 23

Accounting for Non-Exchange Transactions

Issues associated with accounting for revenues from non- exchange transactions include classification, determining recognition points, measurement at initial recognition and determining the appropriate accounting treatment of conditions attached to grants.

Accounting for Transfers



The timing of revenue recognition is determined by the nature of the stipulations and their settlement.

Transactions which give rise to non-exchange revenue often also involve the recognition of liabilities. It is common for assets to be transferred in a non-exchange transaction with the expectation and/or understanding by the transferor that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Stipulations that require the recipient to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose impose a performance obligation on the recipient. The performance obligation may, in certain circumstances, create a present obligation that meets the definition of a liability.

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. Key features of stipulations include:

a) 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 IPSAS 23.

b) Stipulations are not constructive obligations. A decision by an entity’s governing body or controlling entity on how it intends to use a transferred asset does not give rise to a constructive obligation under IPSAS 23, regardless of whether that decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

c) 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.

Stipulations relating to a transferred asset may be either conditions or restrictions. Both restrictions and conditions 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.

An entity analyzes any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions. The distinction is critical to the accounting for transferred assets.

Conditions on transferred assets require that the entity either consume the future economic benefits or service potential of the asset, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. 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).

It is the return obligation associated with the transferred asset that creates the present obligation that meets the definition of a liability. That is, the entity has 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 due to the fact that the recipient is unable to avoid the future outflow of resources. 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 to return them to the transferor. Therefore, when a recipient initially recognizes an asset that is subject to a condition, it also incurs a liability.

The present obligation is recognized as a liability when it is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The present obligation is recognized as a liability on initial recognition of the asset.

Restrictions on transferred assets do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained.

Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise.

Such actions may result in the entity being directed to fulfill the restriction or face a civil or criminal penalty for defying the court, other tribunal, or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

Again, gaining control of an asset subject to a restriction that could be enforced 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. It is only in the case of a breach of the restriction that an entity may have a present obligation.

If an entity has recognized a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because a condition is satisfied, it recognizes revenue. 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.

Characteristics of Conditions

- An outflow of resources will be probable, and performance against the condition is required and is able to be assessed
- Condition enforceable and in cases of breaches, it would be enforced
- Performance is assessable and monitored - specifies
  - The goods and services to be provided or assets to be acquired
  - The periods within which performance is to occur

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.

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.

Similarly, a condition must impose a performance obligation on the recipient entity. The performance obligation 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.

For example, a government may receive a transfer to provide health services. The government has a constitutional requirement to provide health services. The stipulation may not be a condition in these circumstances since the government is required to provide health services whether or not it receives the transfer.

To make the determination that a stipulation is a condition, the entity considers whether a requirement to return the asset is enforceable. If the transferor could not enforce a requirement to return the asset, the stipulation fails to meet the definition of a condition, and will be considered a restriction.

A stipulation is not a condition if, in cases of breaches, it would not be enforced by the transferor. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction. Lacking evidence to the contrary, an entity would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.

To meet these requirements, a condition will need to specify such matters as:

(i) the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and

(ii) if relevant, the periods within which performance is to occur.

Performance will need to be monitored by, or on behalf of,the transferor on an ongoing basis.

Illustrative Example

Scenario:

A national government provides funds to a provincial government entity subject to the stipulation that the entity raise a matching contribution. The funds are returnable to the national government if it fails to raise the matching contribution.

Is the stipulation a condition that would result in recognition of a liability?

Answer:

In this case, an asset may be transferred subject to the stipulation that it be returned to the transferor if a specified future event does not occur. 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.

However, the state government would need to consider whether the transfer is in the nature of an advance receipt. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding.

Advance Receipts

- Resources received before a transfer arrangement becomes binding recognized as an asset and advance receipt liability

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 event that makes the transfer arrangement binding occurs and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

Exchange and Non-Exchange Components of a Transaction

- A transaction may include two components, an exchange component and a non-exchange component.
- 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; and
  - The non-exchange component is recognized according to the principles and requirements of this IPSAS 23.

Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognizes the exchange component according to the principles and requirements of other IPSASs. The non-exchange component is recognized according to the principles and requirements of this standard. In determining whether a transaction has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

Exchange and Non-Exchange Components

Scenario:

A local school board (the reporting entity) purchases land with a fair value of CU100,000 for CU50,000 from a municipality.

How should the school board account for the acquisition? Why?

Answer:

The reporting entity concludes that the 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.

The exchange component would be accounted in accordance with IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 17, *Property, Plant and Equipment*. The non-exchange component is accounted for in accordance with IPSAS 23. An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition. An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue.

In its general-purpose financial statements for the reporting period in which the transaction takes place, the local school board recognizes the land at CU100,000, its fair value. It would also report a transfer of CU50,000 being the revenue from the non-exchange component of the transaction to purchase the land. This is the increase in net assets/equity as a result of the acquisition. That is, an increase in land assets of CU 100,000 less the cash payment.

Other Non-Exchange Transactions

The following non-exchange transactions generally follow the recognition and measurement requirements as for other non- exchange transaction

- Fines
- Forgiven debt - revenue is carrying amount
- Bequests
- Gifts and donations
    - Measured at fair value at date of acquisition
    - Pledges not recognized

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. Fines normally require an entity to transfer a fi ed amount of cash to the government, and do not impose on the government any obligations which may be recognized as a liability. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

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. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

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.

Bequests that 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 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.

Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation.

Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. On initial recognition, gift and donations including goods in- kind are measured at their fair value as at the date of acquisition, which may be determined by reference to an active market, or by appraisal.

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.

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. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19.

Concessionary Loans

- Loans received at below market terms
  - Portion of the loan that is repayable plus interest is an exchange transaction
  - Difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue except to the extent that conditions result in a liability
  - As liability is reduced an equal amount of revenue recognized
- Accounted for as financial instrument

Concessionary loans are loans received by an entity at below market terms.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement* (or *IPSAS 41, Financial Instruments*).

An entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (see IPSAS 29 or IPSAS 41) is non-exchange revenue that should be accounted for in accordance with IPSAS 23. Where an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue, an entity recognizes the difference as revenue except if a present obligation exists.

Where conditions imposed on the transferred assets result in a present obligation it is recognized as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

Examples of concessionary loans granted by entities include loans to developing countries, small farms, student loans granted to qualifying students for university or college education and housing loans granted to low income families. Entities may receive concessionary loans, for example, from development agencies and other government entities.

Loan to Health Authority

Scenario:

A local health authority receives loan funding of CU5 million from an international development agency. The agreement stipulates that loan should be repaid over the 5 year period. Interest is paid annually in arrears, at a rate of 5% per annum on the outstanding balance of the loan. A market related rate of interest for a similar transaction is 10%. There are no conditions attached to the loan.

Is the loan a concessionary loan? Explain.

Answer:

The loan is a concessionary loan. That is, the interest rate on the loan at 5% is concessionary when the market rate is 10%.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction. However, the health authority considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue that should be accounted for in accordance with IPSAS 23.

Fair value is determined by discounting future cash payments using market related rate of interest.

Disclosures

Disclose:

- Revenue from non-exchange transactions
- Receivables recognized
- Liabilities recognized in respect of conditions
- Amount and nature of assets subject to restrictions
- Amounts of advance receipts
- Amount of liabilities forgiven
- Accounting policies adopted
- Basis on which the fair value was measured
- Nature and type of bequests, gifts and donations

An entity discloses either on the face of, or in the notes to, the general purpose financial statements:

a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:

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

   (ii) Transfers, showing separately major classes of transfer revenue.

b) The amount of receivables recognized in respect of non-exchange revenue;

c) The amount of liabilities recognized in respect of transferred assets subject to conditions;

d) The amount of assets recognized that are subject to restrictions and the nature of those restrictions;

e) The existence and amounts of any advance receipts in respect of non-exchange transactions; and

f) The amount of any liabilities forgiven.

Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of (a) the amount of liabilities recognized in respect of conditions, and (b) the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by (c).

Disclosure in (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 a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgments about the entity's future revenue and net asset position.

An entity also discloses 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) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

Item (c) requires entities to make disclosures about the nature and type of major classes of gift donations, and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgments about the entity's future revenue and net asset position.

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. IPSAS 23 encourages an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognized or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

Discussion and Questions

That concludes our module on revenue from non-exchange transactions. Participants should refer to the review questions to test themselves on their knowledge.

Visit the IPSASB webpage.

http://www.ipsasb.org

Review Questions

Question 1

Transfers may have stipulations attached. An entity analyzes stipulations attached to transfers to determine whether those stipulations impose conditions or restrictions on use of assets. Conditions on a transferred asset give rise to a liability on initial recognition. A condition includes stipulations that

a) **Require an entity to use an asset for a particular purpose**

b) **A penalty will be incurred if the asset is not used as specified**

c) **Require the entity to use the asset as specified or return it to the transferor**

d) **Require the entity to raise matching funds**

Question 2

The national government (transferor) lent a local government (reporting entity) CU20 million to enable the local government to build a water treatment plant. After a change in policy, the national government notifies the local government that it is forgiving the loan. There are no stipulations attached to the forgiveness of the loan.

How does the local government account for the loan forgiveness transaction? Why?

Question 3

The national government grants CU10 million to a provincial government under an agreement that it be used to improve mass transit systems. The agreement includes a five-year capital investment plan that identifies eligible projects. By June 30 of each year, the provincial government must submit an audited report of expenditures. The funds must be spent by the end year five. Unspent funds or the amount of ineligible expenditures are “clawed back“ from other transfers that flow to the provincial government.

How is the transfer accounted for by the provincial government?

Question 4

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

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

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

How is the transfer accounted for by the state government social housing entity? Why?

Answers to Review Questions

Question 1

The answer is (c).

The key distinction between a condition that imposes a liability on an entity and other stipulations is the requirement to return the transferred assets if the conditions are breached.

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

A stipulation that requires an entity to return the asset to the transferor if a specified future event does not occur does not create a liability at initial recognition. 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. For example, a national government provides funds to a provincial government entity subject to the stipulation that the entity raise a matching contribution. A liability does not arise until the provincial government expects that it will not be able to raise the matching funds.

Question 2

When it receives the notification from the national government, which communicates its decision to forgive the loan, 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.

Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Question 3

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.

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.

In this case, the provincial government has entered into a binding agreement that stipulates that the funds be used to improve mass transit systems. The agreement includes a five-year capital investment plan that identifies specific eligible projects. There is a time frame within which funds must be spent for the purposes stipulated. There is a reporting mechanism to monitor the compliance of the provincial government with the terms of the agreement. There is a mechanism for the claw back of unspent funds or ineligible expenditures.

Lacking evidence to the contrary, the provincial government assumes that the national government would enforce the agreement and, therefore, the stipulations in it would meet the definition of a condition.

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.

Question 4

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