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INVITATION TO COMMENT

**REVENUE FROM
NON-EXCHANGE TRANSACTIONS
INCLUDING TAXES, GRANTS
AND TRANSFERS**

WORKING DRAFT - FOR PSC REVIEW

WORKING DRAFT FOR PSC REVIEW APRIL 2003

Commenting on this Invitation to Comment

This Invitation to Comment of the International Federation of Accountants (IFAC) was prepared by the Steering Committee on Non-Exchange Revenue (the Steering Committee) on behalf of the Public Sector Committee (PSC). It represents the majority views of the Steering Committee and has been approved for publication as an Invitation to Comment by the PSC.

The aim of the PSC in publishing this document is to canvas a broad range of views on the most appropriate accounting treatment for public sector revenue, prior to the preparation of an Exposure Draft of an International Public Sector Accounting Standard.

Comments are invited on any aspect of this Invitation to Comment (ITC). In particular, respondents are asked to provide clear views on whether they agree or disagree with the preliminary views in this paper, and the reasons why. Comments should be submitted in writing so as to be received by XX Month 2003. E-mail responses are preferred. Unless respondents specifically request confidentiality, their comments are a matter of public record once the Public Sector Committee has considered them. Comments should be addressed to:

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Steering Committee on Non-Exchange Revenue

Richard Neville, Deputy Controller-General, Treasury Board of Canada, (Chair from January 2003, member of the PSC).

David Rattray, Assistant Auditor-General, Office of the Auditor General of Canada, (Chair to December 2002, former member of the PSC).

David Bean, Director of Research and Technical Activities, Governmental Accounting Standards Board, United States of America.

Marianne Brown, Member of the Accounting Standards Board, South Africa.

Ian Carruthers, Head of the Whole of Government Accounts Programme, Her Majesty's Treasury, United Kingdom.

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Ken Warren, Chief Accounting Advisor, New Zealand Treasury.

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Members of the Steering Committee are appointed in their personal capacity rather than as representatives of their nominating body.

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WORKING DRAFT FOR PSC REVIEW APRIL 2003**Executive Summary**

The Steering Committee on Non-Exchange Revenue (the Steering Committee) of the Public Sector Committee (PSC) has prepared this Invitation to Comment (ITC) on behalf of the PSC to elicit views on how revenue from non-exchange transactions received or receivable by public sector entities should be recognized and measured in their general-purpose financial statements. Most public sector entities derive the majority of their revenue from non-exchange transactions. The PSC considered that, as the issue of recognition of revenue from non-exchange transactions, including taxes, grants and transfers, was of such importance to the public sector it was necessary to form a Steering Committee to examine the issues in depth.

An exchange transaction is conventionally defined as an exchange 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. Conversely a non-exchange transaction is a transaction that is not an exchange transaction. In a non-exchange transaction, a public sector entity either gives value to another party without directly receiving approximately equal value in exchange or receives value from another party without directly giving approximately equal value in exchange.

The preliminary view of the Steering Committee is that:

- revenue from non-exchange transactions should be recognized when a public sector entity recognizes an increase in net assets, being either an increase in an asset, or a decrease in a liability or a combination of the two; and
- such revenue should be measured at the fair value of the increase in net assets, unless required to be measured at another value in other IPSASs.

Entities would undertake an analysis of a transaction, determining:

- first, if the transaction is exchange or non-exchange;
- second, if the resources the entity gains control of satisfy the definition of an asset;
- third, if the criteria for recognition as an asset are met (or a decrease in a liability occurs);
- fourth, whether the entity should recognize a contribution from owners in respect of that inflow;

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- fifth, whether the entity should recognize a liability in respect of that inflow ; and
- recognize revenue in respect of the inflow if neither a liability nor a contribution from owners is recognized.

This ITC also discusses issues related to revenue from non-exchange transactions such as:

- stipulations, including restrictions and conditions;
- the “tax gap”;
- tax expenditures; and
- timing of recognition and measurement of taxation revenue.

Although the Steering Committee has carefully considered these issues, which have been reviewed by the PSC, the views that have been formed are preliminary only, and the PSC and Steering Committee welcome the views of its constituents on the preliminary views expressed in this ITC, the specific matters for comment, and on any other matter raised in the ITC.

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Specific Matters for Comment

STEERING COMMITTEE MEMBERS ARE ASKED TO GIVE CONSIDERATION TO SOME QUESTIONS TO ASK HERE.

1. Do you agree with the approach to the recognition of revenue from non-exchange transactions that has been proposed in this ITC? That is, do you agree that revenue should be recognized when a public sector entity recognizes an increase in assets (decrease in liabilities) that does not arise from a contribution by owners?
2. Do you agree that public sector entities should be permitted to designate a transfer to a wholly-owned controlled entity as a contribution from owners as outlined in paragraph 3.27?

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1 Introduction – Outline and Scope

The PSC commissioned the Steering Committee to develop an IPSAS on revenue from non-exchange transactions:

- that deals with all revenue other than revenue arising from exchange transactions;
- includes a definition of “non-exchange transaction”;
- identifies whether a non-exchange transaction gives rise to revenue of the recipient;
- proposes general principles for the recognition and measurement of revenue from non-exchange transactions including:
 - the implications of stipulations imposing conditions, restrictions or timing requirements;
 - pledges; and
 - non-monetary assets; and
- identifies any disclosures required, in addition to those that are required by IPSAS 1.

The Purpose of ITC is to develop principles for the recognition and measurement of revenue from non-exchange transactions by public sector entities preparing general-purpose financial statements using the accrual basis of accounting. The scope of the ITC excludes government business enterprises. (IPSAS 9 does not include revenue from non-exchange transactions within its scope.)

Distinction between Exchange – Non-Exchange:

- definition of exchange transactions;
- definition of non-exchange transactions;
- different terminology used in some jurisdictions – reciprocal and non-reciprocal – technical definitions identical;
- distinction between exchange/non-exchange can be difficult in cases at the margin;
- Steering Committee of the view that there should be one IPSAS on revenue that includes both exchange and non-exchange transactions within its scope.

The Chapters of the ITC are outlined as follows:

- Chapter 2 contains the definitions to be applied in the ITC, distinguishing those that have already been defined in IPSASs, from those being defined by the Steering Committee.

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- Chapter 3 establishes the principles for the recognition of assets, , contributions from owners, liabilities and revenue from non-exchange transactions. It also establishes the rationale for adopting this approach. Chapter 3 also discusses stipulations, including restrictions, conditions and timing requirements.
- Chapter 4 deals with the recognition and measurement of assets and revenues arising from taxes. Issues to be addressed include:
 - when to recognize tax assets – past “taxable” event;
 - tax expenditures and when to separately recognize obligations that are settled through the tax system; and
 - the difficulty of determining the probability of the flow of resources in relation to some assets.
- Chapter 5 deals with the recognition and measurement of assets and revenues arising from transfers (including grants and appropriations). Issues to be addressed include:
 - determining whether different types of appropriation give rise to revenue, noting the different types of appropriation such as of capital and current appropriations, appropriations for grant payments to third parties and various other appropriations – this section will note jurisdictional variations;
 - stipulations imposed on the transfer of resources; and
 - measurement of donated non-monetary assets.
- Chapter 6 deals with the recognition and measurement of revenues arising from other non-exchange transactions. Issues to be addressed include:
 - whether loans extended at interests rates below market interest rates give rise to revenue for either the borrower or the lender;
 - whether the sale of subsidized goods and services gives rise to revenue for the vendor;
 - whether the purchase of subsidized goods and services gives rise to revenue for the purchaser;
 - debt forgiveness;
 - pledges;
 - seignorage;
 - voluntary services; and
 - development assistance.
- Chapter 7 discusses the implications of the approach proposed in the ITC for revenue recognized under IPSAS 9, and states that the view of the Steering Committee is that the PSC should look to

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develop one IPSAS on the recognition and measurement of revenue based on the approach developed in this ITC.

- Appendix 1 provides examples of how particular classes of revenue would be recognized and measured under the approach developed in this ITC. Revenue classes include:
 - income taxes;
 - value added taxes;
 - goods and services taxes;
 - customs duties;
 - gift and death duties;
 - property taxes;
 - wealth taxes;
 - grants and appropriations;
 - fines; and
 - fees arising from non-exchange transactions.

- Appendix 2 will reproduce the appendix to IPSAS 1 on “Qualitative Characteristics of General-Purpose Financial Reporting”.

This ITC proposes that revenue be recognized when an increase in net assets occurs other than an increase arising as a result of a contribution from owners, revenue is recognized at the same amount as that net increase. This approach focuses on the application of the definition of an asset.

The IASB has two projects underway that overlap with this ITC:

- a project on revenue to revise IAS 18 *Revenue*, so that it is consistent with the IASB *Framework*. The IASB has made a tentative decision to adopt an approach that focuses on changes in assets and liabilities;
- the IASB has decided to withdraw IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The IASB plans to issue a revised standard in the short term, with an exposure draft planned for the third quarter of 2003.;

The Steering Committee views this ITC as an opportunity for the PSC to make a major contribution to the debate on the recognition and measurement of revenue.

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2 Definitions

Existing Definitions

- 2.1. The following key terms have previously been defined in IPSASs and are used in this ITC with the meanings specified:

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

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

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

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

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

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

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

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

Proposed New Definitions

- 2.2. The following terms are used in this ITC with the meanings specified. These terms have been defined by the Steering Committee:

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

An exchange transaction is one 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.

A non-exchange transaction is a transaction that is not an exchange transaction. In a non-exchange transaction, a public sector entity either gives value to another party without directly receiving approximately equal value in exchange or receives value from another party without directly giving approximately equal value in exchange.

- 2.3. In some jurisdictions the term “reciprocal” and its opposite “non-reciprocal” are used instead of “exchange” and “non-exchange”. The PSC has previously adopted the terms “exchange” and “non-exchange” and that approach is continued here for reasons including easy comprehension and translation purposes. The Steering Committee is of the view that the different terms would have identical technical definitions.

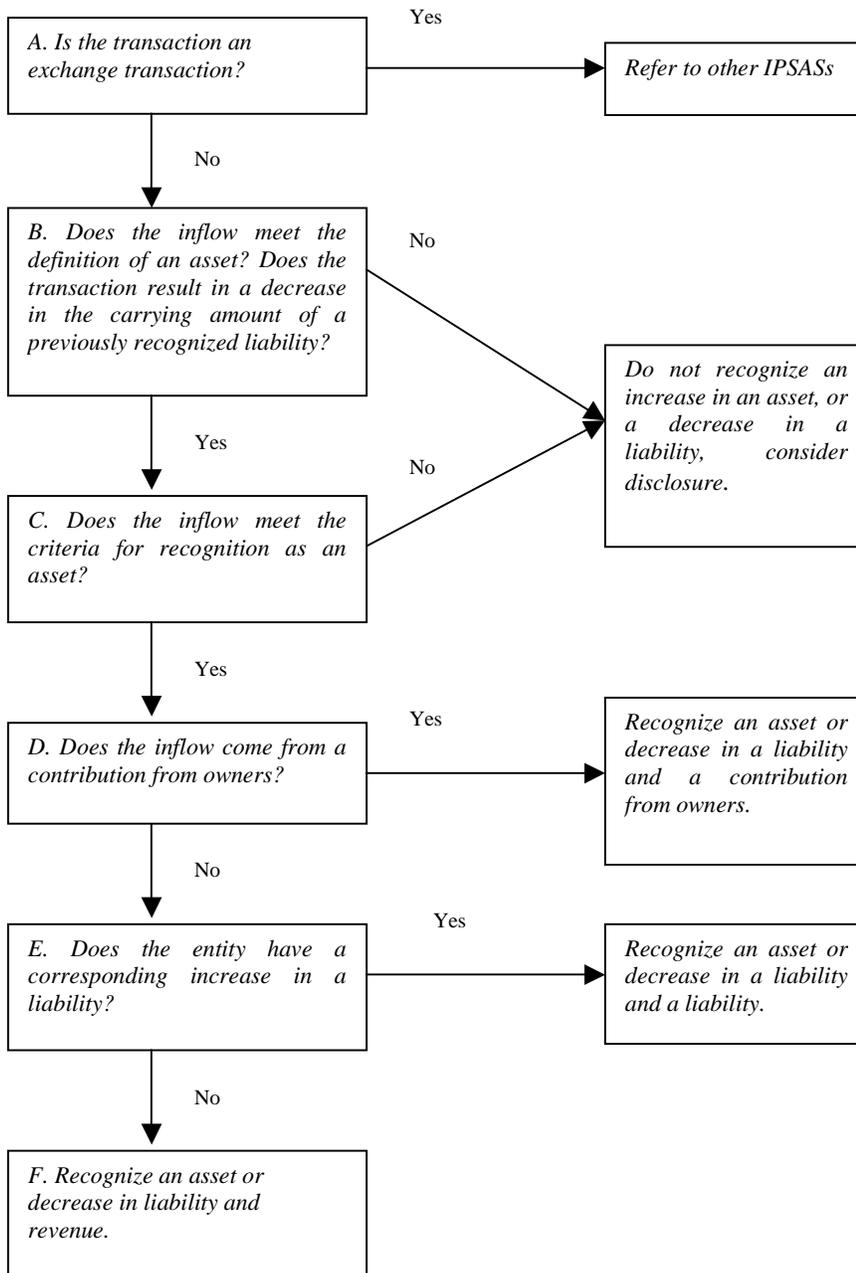
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Chapter 3 Principles

Recognition of Revenue from Non-Exchange Transactions

- 3.1. The approach to recognition of revenue proposed in this ITC is an assets and liabilities approach, that is, when an increase in net assets occurs, revenue is recognized at the same amount as that net increase. This approach requires entities to focus on:
- (a) the past event that causes an increase in an asset or a decrease in a liability;
 - (b) the extent to which the entity controls an asset;
 - (c) the probability of an inflow of economic benefits or service potential;
 - (d) the nature of future economic benefits or service potential; and
 - (e) the ability to reliably measure the inflow of resources.
- 3.2. Some argue that such an approach is flawed because of difficulties in devising effective recognition rules and because the mixed attribute approach to measurement of assets and liabilities creates inconsistencies in the reporting of financial performance. However any alternative approach relies on a concept of earnings that is not applicable in the case of revenue from non-exchange transactions. The approach adopted is also consistent with conceptual frameworks generally adopted internationally with efforts directed to the flaws rather than the underlying framework.
- 3.3. The following flow chart illustrates the analysis to be undertaken when there is an inflow of economic benefits or service potential to determine whether to recognize revenue:

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The remainder of this chapter follows the structure of the flowchart.

A. Is the transaction a Non-Exchange Transaction?

- 3.5. For the purposes of this ITC, a non-exchange transaction has been defined as a transaction that is not an exchange transaction. This definition provides assurance that an applicable and relevant accounting standard applies to all revenue, whether arising by way of a non-exchange transaction or an exchange transaction.
- 3.6. Under existing IPSASs, the distinction between revenue from non-exchange transactions and exchange transactions may be important in determining when revenue is recognized. This is because IPSAS 9 requires that revenue from exchange transactions be recognized when substantially all the risks and rewards of ownership of the goods sold are passed to the purchaser or as services are rendered. However, this ITC develops an approach to the recognition and measurement of revenue from non-exchange transactions that is different from the approach adopted in IPSAS 9 (assets/liabilities approach). This difference may result in revenue from subsidized sales of goods and services, for example, being recognized at a different time than if the provisions of IPSAS 9 were applied to those transactions.
- 3.7. In distinguishing between exchange and non-exchange revenues, substance rather than the form of the transaction should be considered. For example, license fees may normally be classified as exchange transactions, however a particular license fee may be imposed in respect of a commodity or service the acquisition of which is a virtual necessity, so that in substance the license fee constitutes a tax. Examples of non-exchange transactions include revenue from the use of sovereign powers (for example, direct and indirect taxes, duties, and fines), grants and transfers.
- 3.8. There will, however, always be problems with the exchange/non-exchange distinction because of difficulties in making judgments as to whether:

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- (a) a transaction involves approximately equal value in exchange or not, and
 - (b) whether an exchange is directly with the counterparty or not.
- 3.9. The Steering Committee is of the view that the distinction between exchange and non-exchange may be a matter of judgment and therefore in the longer term the better approach is to avoid unnecessary and unproductive debate by basing future IPSASs on the recognition and measurement of revenue on the concepts of assets and liabilities rather than on the exchange/non-exchange distinction.

**B. Does the inflow meet the definition of an asset?
Does the Transaction result in a decrease in the carrying amount of a liability?**

Definition of Assets

- 3.10. Assets are defined in IPSASs as:
- (a) resources controlled by an entity;
 - (b) as a result of past events; and
 - (c) from which future economic benefits or service potential are expected to flow to the entity.

Control

- 3.11. The definition of “control of an asset” requires not only that an entity can use or benefit from the asset, but that it can exclude or regulate the access of others to that benefit. Many assets, for example cash, receivables, and property are based on legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a finance lease is an asset if the entity controls the benefits that are expected to flow from the property. Although the capacity of the entity to control benefits is usually the result of legal rights, an item may nonetheless

¹ Refer to IPSAS 16 *Investment Property*, paragraph 19 and IPSAS 17 *Property, Plant and Equipment*, paragraph 12.

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satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an entity controls the benefits that are expected to flow from it.¹

Administered Assets

- 3.12. Many entities in the public sector administer assets that they do not control. It is common for a government to delegate the administration of assets, such as taxes receivable, to specific public sector entities. These public sector entities are normally controlled by the government but may be reporting entities in their own right. A controlled entity that prepares general-purpose financial statements should only include in its own financial statements information about the resources it controls. In applying the definition of an asset and the criteria for recognition as an asset, an entity needs to consider whether it controls assets it administers on behalf of its controlling entity. If an entity determines that it does not control certain items, but rather administers them as a trustee, it should not recognize these items as assets in its financial statements.
- 3.13. Public sector entities that administer items or programs on behalf of the government are usually required to prepare and publish special-purpose financial statements in respect of these items or programs. These statements are often included in the same document as the entity's general-purpose financial statements. The information contained in these administered/trust financial statements provides useful information to the users of public sector financial statements about the ability of that entity to effectively undertake its responsibilities. As these statements provide information about resources that are not controlled by the entity, they should be presented in such a way to ensure that a clear distinction is drawn between the financial position, performance and cash flows of the entity, and the administered or trust position, performance and cash flows. In presenting these special-purpose

¹ Adapted from International Accounting Standards Committee Foundation *Framework for the Presentation of Financial Statements*, 2002, paragraph 57.

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financial statements a variety of presentation formats are possible.

- 3.14. It is the view of the Steering Committee that whilst disclosure of information about administered items may be useful to users, such items do not give rise to revenue of the reporting entity and should not be included in a public sector entities general purpose financial statements. Where entities prepare administered/trustee financial statements, and publish them in the same document as their general-purpose financial statements, those administered/trustee financial statements the Steering Committee is of the view that they should be prepared in accordance with:
- (a) the requirements of the IPSASs;
 - (b) the principles established in this ITC; and
 - (c) the accounting policies selected by the whole-of-government controlling entity.

Past Event

- 3.15. The assets of an entity arise from past transactions or other events. Public sector entities normally obtain assets from the government, other entities or taxpayers, or by purchasing or producing them. The identification of a past event in determining the recognition point for taxation assets and revenues is of particular importance for governments and is discussed in chapter 4. Transactions or events expected to occur in the future do not in themselves give rise to assets, hence for example, an intention to levy taxation, or to purchase inventory, does not, of itself, meet the definition of an asset.¹

Future Economic Benefits or Service Potential

- 3.16. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service

¹ Adapted from International Accounting Standards Committee Foundation *Framework for the Presentation of Financial Statements*, 2002, paragraph 58.

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potential”. Assets that are used to generate net cash inflows are often described as embodying “future economic benefits”. To encompass all the purposes to which assets may be put, this ITC uses the term “future economic benefits or service potential” to describe the essential characteristic of assets.

Decrease in the Carrying Amount of A Previously Recognized Liability

- 3.17. An increase in net assets arises due to an increase in an asset, a decrease in a liability or a combination of the two. An increase in an asset is recognized when an item meets the definition of an asset and criteria for recognition as an asset, as outlined above. In some circumstances, the increase in an asset will be fully offset by an increase in a liability, in which case there has been no increase in net assets. For example, an advance payment for taxes increases the asset “cash” and also gives rise to a liability in respect of “taxes received in advance,” so there is no increase in net assets. In other circumstances, there may be a partial offset, or no offset, in which case the entity experiences an increase in net assets measured at the amount of the increase in assets, less the amount of any increase in liabilities recognized.
- 3.18. A decrease in a liability also results in an increase in net assets. The amount of the increase in net assets is equal to the reduction in the carrying amount of the liability. For example, if a government has received taxes in advance, and subsequently accrues taxes in respect of those taxpayers, it reduces the liability “taxes received in advance” and recognizes revenue in respect of the taxes accrued, revenue will be measured at the amount equal to the reduction in the carrying amount of the liability. The definition of a liability and the criteria for recognizing a liability are discussed further below.

C. Does the inflow meet the criteria for recognition as an asset?

- 3.19. IPSAS 17 requires that property, plant and equipment be recognized when they meet the definition of an asset and when:
- (a) it is probable that future economic benefits or service associated with the asset will flow to the entity; and

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(b) the fair value or cost of the asset to the entity can be measured reliably.¹

3.20. An item that meets the definition of an asset may not meet the recognition criteria because, for example, there is doubt the future economic benefits or service will flow to the entity such that the entity is unable to assert that it is more likely than not that the flow will occur. Alternatively, the entity may not be able, on reporting date, to reliably measure the asset. In such circumstances the entity needs to consider whether the item meets the definition of “contingent asset” in IPSAS 19, and should be disclosed as a contingent asset, that may or may not be recognized as an asset in the future.

Probable Inflow of Future Economic Benefits or Service Potential

3.21. In determining whether an item satisfies the criteria for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity is able to use or benefit from the future economic benefits or service potential in the pursuit of its objectives. If it is more likely than not that the entity can use or otherwise benefit from the future economic benefits or service potential resulting from the inflow, then this criterion is satisfied.

Measurement of Assets on Initial Recognition

3.22. Existing IPSASs provide the basis of initial measurement of a number of classes of assets, whether arising from exchange or non-exchange transactions. Property, plant and equipment and investment property are initially measured at cost. Where the item is acquired at no cost or for a nominal cost, cost is the item’s fair value as at the date of acquisition (IPSAS 16 *Investment Property*, paragraph 23 and IPSAS 17 *Property Plant and Equipment*, paragraph 23). Inventories are measured at the

¹ Refer to IPSAS 16 *Investment Property*, paragraph 19 and IPSAS 17 *Property, Plant and Equipment*, paragraph 12.

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lower of cost, or current replacement cost where they are held for distribution at no charge or for a nominal charge; or consumption in the production of goods to be distributed at no charge or for a nominal charge (IPSAS 12 *Inventories*).

- 3.23. The IPSASs are silent on the treatment of assets other than inventory, investment property or property, plant and equipment. It is the view of the Steering Committee that other assets should be initially measured at their fair value as at the date of recognition. IPSAS 12 assumes that inventory will be purchased in an exchange transaction. If however inventory is acquired through a non-exchange transaction at less than fair value IPSAS 12 would require that inventory be measured at the actual cost even if that cost is zero. IPSAS 16 and 17 state that where an asset is acquired at no cost or for a nominal cost its cost is its fair value. If however, investment property or property, plant and equipment is acquired through a non-exchange transaction at an economically significant cost that is less than its fair value, IPSASs 16 and 17 would require an entity to initially measure the asset at its cost.

D. Does the inflow come from a contribution by owners?

- 3.24. Many public sector entities, other than the “whole-of-government” entity, are wholly-owned controlled entities of the whole-of-government entity or another wholly-owned controlled entity of the whole-of-government entity, for example a department of health is a wholly-owned controlled entity of its establishing government. As was stated in paragraph 3.15, many public sector entities receive assets as contributions from government or other public sector entities.
- 3.25. In the private sector, a controlling entity has the option, when providing resources to a wholly owned controlled entity, of determining whether that contribution of resources will be deemed a contribution from owners, a loan or revenue. The issue of shares to the owner will evidence a designation as a contribution from owners. The issue of debt instruments such as bonds, notes, debentures or loan agreements will evidence a liability. In the absence of evidence of a contribution from owners or a liability to owners, revenue would be recognized.

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- 3.26. The Steering Committee is of the view that the same process is available in the public sector. Controlling entities in the public sector may transfer resources to a controlled entity for a variety of reasons, and depending on the public sector management model in place, may prefer to designate some of those transfers as liabilities or as contributions from owners. As in the private sector, a loan agreement or other debt instrument would evidence a transfer from the controlling entity that is to be recognized as a liability. Unlike corporations in the private sector, however, a public sector entity is unlikely to be a company with share capital that would enable it to issue new shares to its controlling entity. Public sector entities, therefore, need some basis on which to classify a transfer of resources from a controlling entity as a contribution from owners.
- 3.27. The Steering Committee is of the view that when a controlling entity transfers assets, or assumes or forgives liabilities of a wholly owned controlled entity, it may designate that flow of resources as a “contribution from owners”. For such a designation to be effective in the public sector, it must be evidenced by any of the following:
- (a) formal designation of the transfer (or a class of such transfers) by the transferor or a controlling entity of the transferor as forming part of the transferee’s net assets/equity, either before the transfer occurs or at the time of the transfer;
 - (b) a formal agreement, in relation to the transfer, establishing a financial interest in the net assets of the transferee which can be sold, transferred or redeemed; or
 - (c) the issuance, in relation to the transfer, of equity instruments which can be sold, transferred or redeemed.¹

¹ Based on Australian Accounting Standards Board, (January 2001) Abstract 38: Contributions by Owners made to Wholly-Owned Public Sector Entities, paragraph 7.

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E. Does the entity have a corresponding increase in a liability

Definition of Liabilities

3.28. Liabilities are defined in IPSASs as:

- (a) present obligations of the entity;
- (b) arising from past events; and
- (c) the settlement of which is expected to result in an outflow of resources embodying future economic benefits or service potential.

A previously recognized liability that no longer meets this definition should be derecognized.

Present Obligation

3.29. Paragraph 24 of IPSAS 19 states that in most cases it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a dispute relating to the breach of a grant agreement, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, an entity determines whether a present obligation exists at the reporting date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional events after the reporting date. On the basis of such evidence:

- (a) where it is more likely than not that a present obligation exists at the reporting date, the entity recognizes a liability (if the other recognition criteria are met); and
- (b) where it is more likely that no present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources

¹ Australian Accounting Standards Board, (January 2001) Abstract 38: Contributions by Owners made to Wholly-Owned Public Sector Entities, paragraph 11.

² Based on Australian Accounting Standards Board, (January 2001) Abstract 38: Contributions by Owners made to Wholly-Owned Public Sector Entities, paragraph 12.

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embodying future economic benefits or service potential is remote.

Past Event

- 3.30. A past event that leads to a present obligation is called an obligating event. IPSAS 19, paragraph 25 states that for an event to be an obligating event, it is necessary that the entity have no realistic alternative to settling the obligation created by the event. This is the case only:
- (a) where the settlement of the obligation can be enforced by law; or
 - (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
- 3.31. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. IPSAS 19, paragraph 26 states, therefore, that no liability is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future. The only liabilities recognized in an entity's statement of financial position are those that exist at the reporting date.

Criteria for recognition as a liability

- 3.32. IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 22 establishes recognition criteria for liabilities. A liability is recognized when:
- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
 - (b) it is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
 - (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no liability should be recognized. If a previously recognized liability no longer meets these criteria it should be derecognized.

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Probable Outflow of Resources Embodying Future Economic Benefits or Service Potential

- 3.33. For a liability to qualify for recognition, IPSAS 19, paragraph 31 states that there must be not only a present obligation but also the probability of an outflow of resources embodying future economic benefits or service potential to settle that obligation. For the purposes of this ITC, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity may need to consider disclosing a contingent liability in accordance with the provisions of IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, unless the possibility of an outflow of resources embodying future economic benefits or service potential is remote.

Reliable Estimate of the Obligation

- 3.34. In many cases, an entity will know the exact timing and amount of the probable outflow of future economic benefits or service potential and will recognize the liability at this amount. These amounts may be set out in grant agreements, loan agreements, other debt instruments, or in legislation. Where the time value of money is material, the entity will also need to determine the present value of the obligation. Where the liability is a provision, the entity will need to estimate the amount of the liability, in accordance with the requirements of IPSAS 19.

F. Recognition and Measurement of Revenue

- 3.35. When a public sector entity recognizes an increase in net assets from a non-exchange transaction that does not result from a properly designated and documented contribution from owners, that increase in net assets should be recognized as revenue. The increase in net assets may result from an increase in assets, or a decrease in liabilities, or a combination of both in the same transaction.
- 3.36. Subject to paragraph 3.66, revenue should be measured at the fair value of the increase in net assets. However as noted above

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in paragraphs 3.22 and 3.23, current IPSASs do not permit inventories, property, plant and equipment or investment property to be initially recognized at fair value in all circumstances, in these circumstances the amount of revenue recognized will equal the amount at which the inflow of assets is initially recognized.

3.37. Where the amount at which an asset is recognized is remeasured subsequent to initial recognition, that remeasurement does not affect the amount of revenue recognized in respect of that asset, even if the remeasurement occurs in the same reporting period. For example,

- (a) if an entity recognized revenue in respect of a donated item of property, plant and equipment, which was subsequently destroyed by fire, the entity would recognize revenue in respect of the donation and an expense in relation to the fire;
- (b) if an entity recognized revenue which in respect of a donation of an item of property, which is part of a class of assets that is subsequently revalued, the revaluation would be treated in accordance with the provisions of IPSAS 17; or
- (c) if an entity recognizes a receivable, which is subsequently identified as uncollectable, the entity does not adjust revenue, but recognizes an expense for the bad debt.

Subsequent events that require the remeasurement of an asset's carrying amount are separate events to the events that cause assets to initially accrue to the entity and should be recognized separately in the financial statements.

Presentation of Revenue

3.38. IPSAS 1 requires that assets and liabilities, and revenues and expenses, not be set off against each other unless a provision in an IPSAS specifically permits such a set off. The Steering Committee is of the view that, where items meet the definition of an asset, liability, contribution from owners, revenue or expense, they should be presented separately in the general-purpose financial statements and that no netting off should occur. However, in certain circumstances additional information

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may be required to be presented in the notes to the general-purpose financial statements such that the relationship between various items in the general-purpose financial statements is clarified. For example, if certain social policy obligations are settled through the taxation system, this should be disclosed in the notes.

Preliminary Views

1. *An increase in net assets that does not result from a contribution by owners should be recognized as revenue.*
2. *Revenue generally should be measured at the fair value of the increase in net assets.*

Stipulations

- 3.39. In many cases, funds transferred to governmental entities in a non-exchange transaction are subject to stipulations that they be used for particular purposes and/or within particular time periods. This is frequently the case for grants and other transfers or contributions from:
- (a) national governments to provincial/state or local governments; and
 - (b) governments to governmental entities that are created by legislation or statute to perform specific tasks with operational autonomy, such as statutory authorities or regional boards or authorities.

Transfers of physical assets may also be subject to stipulations regarding the nature or timing of their use. Unless specified otherwise, the term “transfer” is used in the remainder of this section to encompass grants, contributions, and other transfers of funds or other assets to public sector entities in a non-exchange transaction.

- 3.40. In addition to authorizing the purposes and time periods for which the transferred resources may be used and/or the circumstances under which their use is authorized, stipulations may also identify the consequences, if any, of non-compliance with the terms and conditions under which such transfers are made. In some cases, stipulations will specify that assets are to

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be returned to the grantor if they are not deployed as prescribed. For example, funds or other assets may be transferred to the recipient entity:

- (a) prior to the time period during which their use is authorized, including funding provided to support the provision of services for a number of time periods - such as multi-period grants from a national government to support particular state or local government programs or government universities or research institutes;
- (b) subject to the stipulation that they are only to be used by the recipient for the purposes specified and/or are only to be used if another specified event occurs - such as a matching contribution from a third party or a commitment by the recipient to also devote an agreed amount to the activity; or
- (c) on an expenditure reimbursement basis, such that funding will only be provided when the authorized expenditure occurs and appropriate documentation is provided.

3.41. This ITC uses the term *stipulations* to encompass the terms and conditions that are imposed on the use of funds or other assets transferred to the reporting entity by external parties. Stipulations often require a specific action or event to occur before the reporting entity is authorized to use the funds or other assets. To satisfy the meaning of stipulations as used in this ITC, the terms and conditions will need to be reflected in:

- (a) explicit agreements with the external parties who transfer the funds or other assets to the recipient, or
- (b) legislation enacted by the transferor government, where funds or other assets are transferred to the reporting entity by another government or government entity.

This means that stipulations can never be self-imposed by the entity receiving the transferred resources.

Differing Views on the Treatment of Transfers subject to Stipulations

3.42. Some are of the view that transfers which are subject to stipulations should not be recognized as revenue until such time

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as the recipient has discharged the terms and conditions specified by those stipulations. Those that support this view argue that the recipient has an obligation to discharge those terms and conditions and only increases net assets and therefore recognizes revenue as those terms and conditions are discharged. Others are of the view that when the recipient gains control of the transferred assets, and it is less likely than not that the stipulations will be breached, the amount of those assets should be recognized as revenue notwithstanding any stipulations regarding their use, unless the transfer has been by way of a contribution from owners. Therefore, revenue is recognized and a contingent liability is disclosed, unless the possibility of a breach of stipulations is remote. They argue that all assets provided to public sector entities are subject to terms and conditions that they be used appropriately. However, those terms and conditions do not give rise to a liability until such time as they are breached and a penalty is imposed on the reporting entity.

- 3.43. Some are of the view that the distinction between restrictions and conditions as outlined below is critical to the assessment of when revenue should be recognized:
- (a) restrictions, which limit or direct the use of contributed funds or other asset, whether as to the purposes for which they may be used or the time period(s) during which they may be used, but which do not specify that the asset is to be returned if not deployed as specified; and
 - (b) conditions, which specify that the transferor has a right of return of the funds or other assets if they are not deployed as specified, or if a specified future event does not (or does) occur. Some also argue that “for a condition to arise, some specified discrete future event (a trigger event) that is additional to the actual use of the asset must occur or fail to occur.”¹ They are of the view that this additional

¹Westwood, Mark and April Mackenzie, (1999): Accounting by Recipients for Non-Reciprocal Transfers, Excluding Contributions by Owners: Their Definition, Recognition and Measurement, Australian Accounting Standards Board, Canadian Accounting Standards Board, International Accounting Standards Committee, New Zealand Financial Reporting Standards Board, United Kingdom Accounting Standards Board, United States Financial Accounting Standards Board (G4+1), paragraph 4.18.

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“trigger” is necessary to distinguish restrictions from conditions.

- 3.44. Those that distinguish between restrictions and conditions as outlined in paragraph 3.43 argue that a present obligation may arise when the recipient gains control of a transfer which is subject to a condition, but will not arise in respect of transfers that are subject to a restriction. Accordingly, they argue that if the recognition criteria are satisfied, transfers other than contributions from owners, should be recognized as revenue:
- (a) immediately the recipient gains control of transfers which are subject to restrictions - because the gaining of control of the assets increases the net assets of the entity; and
 - (b) in respect of transfers subject to conditions, only when those conditions are satisfied - because gaining control of the assets also gives rise to a liability to return the assets if the conditions are not satisfied. Consequently, it is only when those conditions are satisfied that the liability is discharged, that the net assets of the entity are increased and revenue should be recognized.

The Approach adopted in this ITC

- 3.45. This ITC defines revenue in terms of the increase in net assets, other than increases resulting from a contribution from owners. Revenue will arise when the entity gains control of assets and does not at the same time recognize a liability and/or a contribution by owners (whether separately or in combination) of an equivalent amount. The diagram in paragraph 3.3 identifies in schematic form the steps involved in determining when revenue is to be recognized.
- 3.46. Consistent with this approach, determining whether transfers that are subject to stipulations should be recognized as assets, liabilities, contributions from owners and/or revenue involves consideration of the following key elements of the definition and recognition criteria of assets and liabilities:
- (a) does the recipient control an asset which is subject to stipulations;
 - (b) does the transfer constitute a contribution by owners;

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- (c) does gaining control of the asset give rise to a present obligation to transfer cash or other assets to third parties that should be recognized as a liability; and if yes
- (d) when and how is the liability settled.

These matters are considered further below.

Does the recipient control an asset which is subject to stipulations?

- 3.47. Paragraph 2.2 proposes that “control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or regulate the access of others to that benefit”.
- 3.48. It may be argued that funds transferred to entities subject to conditions that they be used in particular ways and returned to the transferor or otherwise forfeited if not so deployed are not controlled by the recipient. This is particularly so where those conditions specify that the funds are to be transferred to third parties or otherwise provide the recipient with little discretion in the use of those funds. In these circumstances, it may be argued that the recipient is acting in the capacity of an agent in respect of those funds.
- 3.49. The Steering Committee is of the view that funds deposited in a bank account controlled by the recipient will be controlled by the entity. This is because the recipient can benefit from the use of those funds whether through the interest they generate or their deployment as specified in the stipulation. In these circumstances, the recognition criteria will be satisfied because future economic benefits or service potential will flow to the entity and the amount of the transfer can be measured reliably. This view is consistent with that adopted for “control of cash” in the CASH BASIS IPSAS *Financial Reporting Under the Cash Basis of Accounting*.
- 3.50. Judgment will need to be exercised in determining when control of other assets, including non-monetary assets such as property, plant and equipment, arises. In most cases, control will arise when the recipient assumes the authority to deploy the asset in achieving its objectives, within the parameters established by any stipulations. When this occurs, the entity will benefit from

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the future economic benefits or service potential represented by the asset because it can use that asset in achieving its organizational objectives. If the value of the asset can be reliably determined at this time (measurement is dealt with in paragraphs 3.22 – 3.23), the asset recognition criteria will be met.

- 3.51. Determining whether or not revenue should be recognized when the recipient gains control of the transferred assets will involve consideration of whether:
- (a) the transfer is in the nature of a contribution from owners. Paragraph 3.27 above deals with the circumstances in which a transfer will qualify as a contribution from owners; or
 - (b) gaining control of the transferred assets gives rise to a present obligation which is expected to result in an outflow of resources from the entity, and in respect of which the entity has no realistic alternative but to settle that obligation. If this is the case a liability rather than revenue will be recognized.

Does gaining control of the asset give rise to a liability?

- 3.52. IPSAS 19 paragraphs 24 to 28 explain that:
- (a) an obligation and therefore a liability always involves the transfer of resources to another party. However, it is not necessary to know the identity of the other party – for example, the obligation to transfer assets may be to the public at large;
 - (b) for a liability to arise, the obligation must have arisen from a past event and the entity must have little or no alternative but to settle the obligation. This means that a liability can only arise in respect of an externally imposed condition. Internally imposed conditions will not give rise to a liability because the entity can avoid the need to transfer resources to another party by itself removing the condition; and
 - (c) a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more

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likely than not that a present obligation exists at reporting date.

Consequently, for a liability to arise at the time the entity gains control of an asset, the stipulations associated with the transfer must give rise to a present obligation for the recipient to transfer resources to another party, and the recipient must have little or no alternative but to make that transfer.

Restrictions

3.53. The Steering Committee is of the view that a present obligation does not arise at the time an entity gains control of an asset which is subject to restrictions which:

- (a) specify or limit the use of that asset; but
- (b) do not require the asset to be returned to the transferor if the asset is not deployed as specified, or if other restrictions on or terms governing its use are not met.

In these circumstances, at the time the entity gains control of the asset there is not a present obligation to transfer future economic benefits or service potential to another party. However, a present obligation to transfer those assets to third parties, whether the ultimate recipient of the goods or services or the service provider, may arise at a later date as a result of subsequent transactions or events.

Conditions

Assets to be Transferred Directly to Third Parties

3.54. The Steering Committee is of the view that, in respect of transfers other than contributions from owners, gaining control of funds or other assets that are subject to stipulations which require the recipient entity to transfer the assets to third parties or otherwise return the assets to the transferor, will give rise to a liability. This is because, as a result of gaining control of the funds or other assets (the obligating event), the recipient has little alternative but to transfer to those funds or other assets;

- (a) to third parties in accordance with the conditions related to the provision of the assets by the transferor; or

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- (b) to return them to the transferor if the conditions are breached.

Assets to be Consumed in Providing Goods and Services

3.55. The Steering Committee considered whether conditions that funds or other assets be deployed in the provision of goods or services as specified or be returned to the transferor would also give rise to a liability when the recipient gains control of such conditional assets. The Steering Committee is of the view that different conclusions can be reached in respect of funds and other assets in these circumstances. The Steering Committee is of the view that gaining control of funds subject to such stipulations gives rise to a present obligation to sacrifice resources as the recipient is required to either:

- (a) contract with other parties, whether employees or others for the acquisition of goods and services which are to be transferred to the ultimate recipients; or
- (b) return the funds to the transferor

In these cases, gaining control of the funds will give rise to a liability of similar amount because the entity has no realistic alternative but to sacrifice resources to another party. Accordingly, an increase in net assets will not arise until the liability is settled, at which time revenue will be recognized.

3.56. The Steering Committee noted views that:

- (a) there is no substantive difference between the future economic benefits or service potential represented by monetary assets or other assets, in particular property, plant and equipment; and
- (b) gaining control of depreciable assets¹ that are transferred subject to such stipulations will also give rise to a present obligation to:

¹ Those that support this view recognize that land and other non-depreciable assets will not be consumed in providing goods and services to third. However, they note that where such assets are provided for a specified period of time and are to be returned to the transferor at the completion of that period of time, the recipient gains control of a finite quantum of

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- (i) transfer resources to third parties as the non-monetary assets are consumed in generating services for, or in producing goods that will be transferred to, third parties in accordance with the stipulations; or
 - (ii) returned to the transferor where those stipulations are breached.
- 3.57. The Steering Committee agrees that there is no substantive difference between the future economic benefits or service potential represented by funds or that represented by other assets. However the Steering Committee is of the view that gaining control of a non-monetary asset in these circumstances and subject to such stipulations would not give rise to a present obligation to sacrifice resources to third parties. While the recipient may use the asset and consume its service potential, it will in effect transform the asset into a different resource (whether goods or services) controlled by the recipient. A present obligation would only then arise when the recipient was required to transfer those final goods or services to third parties as a consequence of subsequent transactions or events, or when the stipulations were breached and the asset was required to be returned to the transferor. As such, the gaining of control of the asset is not an obligating event because it does not give rise to the entity having no realistic alternative to transferring resources to another party, whether the transferor or a third party. Rather it is a subsequent event which is the obligating event. The Steering Committee also noted that conditions generally relate to the expenditure of funds. As such, liabilities recognized in respect of those conditions are discharged, and the net assets of the entity are increased when conditions relating to the acquisition of capital assets, rather than conditions relating to the use of those assets, are satisfied.

service potential and, subject to the stipulations attached to the transfer, is obligated to transfer that service potential to third parties. In these cases, an asset and a liability will be recognized for the service potential the recipient gains control over as a consequence of the transfer, and revenue will be recognized as the conditions are satisfied. Where there is no obligation to return the assets to the transferor after a specified period of time, the recipient will recognize an increase in an asset, without any concomitant increase in a liability when it gains control of the asset.

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Transfers Subject to "Matching" Contributions

3.58. The Steering Committee is also of the view that assets that are transferred for use subject to conditions that, for example:

- (a) a matching contribution is made by the recipient or another party; and;
- (b) if no such contribution is made, the assets are to be returned to the provider

will give rise to a liability which will be discharged when the matching contributions are made or it becomes clear that they will be made. It is not until this point in time that the present obligation to return the asset to the transferor is discharged. The Steering Committee is of the view that until it becomes clear that the matching contribution will be made, an assessment of all available evidence will lead one to conclude it is more likely than not that a present obligation to return the asset exists.

When and how is the liability settled?

3.59. When the conditions are satisfied, the liability will be reduced and revenue will be recognized. The timing of recognition of revenue will then be determined by the nature of the terms and conditions and their settlement, for example where a liability is recognized when funds or other assets are provided on condition that they:

- (a) are used to deliver goods and services as specified and are to be returned to the provider if not deployed as specified – the liability will be discharged as those goods and services are provided;
- (b) be expended in the acquisition of capital assets and are to be returned to the provider if not deployed as specified - the liability will be discharged when the capital assets are acquired;
- (c) only be used for the purposes specified if a matching contribution is made by the recipient or another party and are to be returned to the provider if such a contribution is not made - the liability will be discharged when the matching contributions are made or it becomes clear that they will be made; and

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- (d) in the case of funds provided on the condition that they be invested to form a permanent endowment and are to be returned if such an endowment is not established – the liability will be discharged when those funds are invested consistent with the conditions imposed by the transferor.

In each of these cases, as a result the actions or events identified above, it will no longer be probable that the recipient will need to transfer resources to another party as a result of a present obligation which arose when the entity gained control of the assets which were subject to the stipulations.

3.60. The Steering Committee is concerned to ensure that the mere form of a transfer subject to stipulations, rather than the substance of the transfer, does not inappropriately dictate accounting for such transfers. The mere inclusion of a condition in a stipulation is in itself not sufficient for a liability to be recognized when the entity gains control of the asset. To qualify for recognition as a liability an outflow of resources must be probable. The Steering Committee is of the view that for this to occur:

- (a) in respect of stipulations relating to the provision of goods or services or the acquisition of assets - the stipulations will need to specify such matters as: the nature and quantum of the goods and services to be provided; the nature of assets to be acquired; the location and characteristics of the recipients of any goods and services; and the periods within which the provision of goods and services is to occur. In addition, delivery of services will need to be monitored by/on behalf of the provider on an ongoing basis and if significant failure to deliver has occurred in the past, the right of return of the asset has been exercised or some equivalent penalty imposed. The Steering Committee is of the view that these characteristics of stipulations and the related follow-up actions are necessary to ensure that the specification of conditions is not simply a matter of form, but substantively satisfies the definition and recognition criteria of a liability;
- (b) in respect of transfers that are conditional on a subsequent event occurring, such as the raising of a matching contribution - the possibility that the condition will not be

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met must be very unlikely, and if failure to satisfy the condition has occurred in the past, the right of return of the asset has been exercised. It is only in these circumstances that the gaining of control of the asset subject to these “conditional promises” is likely to give rise to a present obligation for which an outflow of resources is probable.

Special Cases – Time Requirements

- 3.61. In some circumstances, amounts may be transferred to a recipient prior to the time period during which the use of those resources is authorized. Amounts may also be transferred to fund operations of the recipient for a number of periods. The Steering Committee notes that some are of the view that funds transferred subject to stipulations regarding the timing of their use, but which do not specify that the amounts are to be returned to the provider if they are consumed other than in the prescribed periods, will not give rise to liabilities when the entity gains control of them. This is because at that time the recipient gains control of the funds a present obligation to transfer those funds to a third party or to return them to the transferor does not arise.
- 3.62. However, the Steering Committee also notes that in many cases in the public sector, time restrictions are imposed on the recipients of transfers such that the recipient is unable to discharge its obligation to use funds in a particular way until the commencement of the nominated period. The Steering Committee is concerned that the application of the definitions of assets and liabilities to transfers subject to time requirements, will result in revenue being recognized when funds are received prior to commencement of the period during which its expenditure is authorized.
- 3.63. The Steering Committee notes that when services are prepaid in an exchange relationship a liability is recognized. This is the case in circumstances such as, for example, the prepayment of tuition fees of students at a private school for a specified period by a benefactor. In these circumstances, the recipient will recognize a liability for the amount of the prepayment, and revenue is recognized as the service is provided. Similarly, if a government provides funds in advance to support the operating budget of that private school for a specified future period, subject to the school providing educational services to a

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specified number of students, a liability would be recognized for the prepayment. The recognition of the liability would reflect that the school has a present obligation in respect of the group of students nominated by the benefactor or the government. The Steering Committee is concerned that in similar circumstances, the funding in advance of the operation of a government school by the same benefactor or the same external government will not be recognized as a prepayment because a present obligation to transfer future economic benefits or service potential to third parties does not arise as a result of the entity gaining control of those funds. Rather a present obligation only arises when services are provided by teachers and the entity is obligated to use the contributed funds as payment.

- 3.64. The Steering Committee considered whether the substance of the arrangement was that the entity does not gain control of the service potential represented by funding until the commencement of the period in which expenditure of the cash is authorized. While an appealing notion, the Steering Committee concluded that this does not reflect reality when the cash is held in a bank account controlled by the entity.
- 3.65. The Steering committee notes that IAS 41 *Agriculture*, specifies that a government grant related to a biological asset measured at fair value should be recognized as income when and only when the conditions attaching to that grant are met. (IAS41 paragraph 35). IAS41 also notes that in some circumstances a multi-period government grant, may:
- (a) require an entity to farm in a particular location for five years or return the grant to the grantor; and
 - (b) allows the entity to retain part of the grant based on the passage of time.

In these circumstances the enterprise recognizes the government grant on a time proportion basis.

- 3.66. The Steering Committee is of the view that the principles adopted in IAS 41 should be applied in respect of amounts transferred to a recipient prior to the time period during which the use is authorized, including amounts transferred to fund operations for a number of periods. In these cases, the arrangement should be deemed as giving rise to a present

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obligation to transfer funds in the future. The Steering Committee is of the view that this better reflects the substance of these funding arrangements, and the financial statements of the recipient should reflect that the entity has an obligation to transfer resources to third parties consistent with the period for which use of the funds has been authorized by the transferor.

Preliminary View

3. *Assets transferred to a recipient which are subject to stipulations should:*
 - (a) *in respect of restrictions, be recognized as revenue when the recipient gains control of the asset;*
 - (b) *in respect of conditions which give rise to a liability, be recognized as revenue when the recipient satisfies those restrictions; and*
 - (c) *in respect of time restrictions, be recognized as revenue in the period in which their use is authorized.*

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