

This accounting policy paper is based on IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers), as adopted by the Treasury of the Republic of Cyprus.

Revenue from Non-Exchange Transactions (Taxes and Transfers)

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1. INTRODUCTION

1.1 REVENUE

Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions.

Revenues received by public sector entities arise from both exchange and non-exchange transactions.

However, the majority of revenue of governments and other public sector entities is typically derived from non-exchange transactions (e.g. value added tax, income tax, corporation tax, custom duties). Non-exchange transactions are transactions in which 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.

An analysis of revenue classified by nature is provided on the face of the Statement of Financial Performance (as per Accounting Policy on Presentation of Financial Statements).

1.2 OBJECTIVES

The objective of this accounting policy is to propose the accounting treatment and disclosure of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to a public sector combination. The aim of this policy is to provide technical accounting guidance for the preparation of financial statements regarding revenue from non-exchange transactions, so as to enable the financial statements to give a true and fair view of the financial performance and financial position of the entity. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

This accounting policy applies to the accounting treatment of all Revenue arising from non-exchange transactions as these are defined in this accounting policy and are included in the financial statements of the government of the Republic of Cyprus and its consolidated entities, such as:

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

Revenue arising from exchange transactions are outside the scope of this accounting policy (addressed in the Accounting Policy on Revenue from Exchange Transactions).

This accounting policy does not apply to revenues generated from a public sector combination that is a non-exchange transaction (addressed in the Accounting Policy on Public Sector Combinations).

1.4 DEFINITIONS

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

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

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

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

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

Non-exchange transactions – 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.

Present Obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.

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

Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions.

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

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

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

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

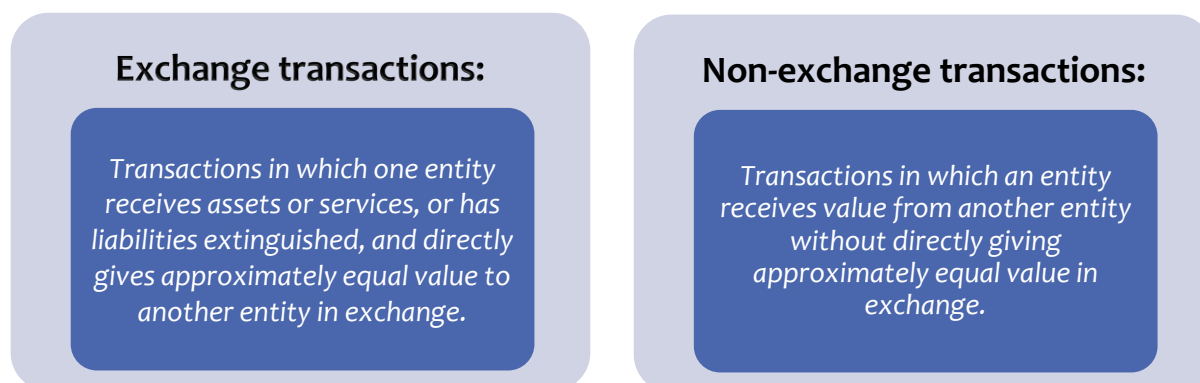
Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, are used in this accounting policy with the same meaning as in those accounting policies.

1.5 NON-EXCHANGE TRANSACTIONS

Public sector entities receive revenue from exchange and non-exchange transactions.



Revenue arising from exchange transactions is addressed in the Accounting Policy on Revenue from Exchange Transactions. Examples of revenue from non-exchange transactions the public sector entities may report include, but are not limited to, the following:

- Taxes (e.g. Value Added Tax, Income Tax, Corporation Tax)
- Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods in-kind, and the off-market portion of concessionary loans received.

Non-exchange revenue may also include ownership contributions. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered.

An entity may have revenues within the group of non-exchange transactions, but some consideration is provided directly in return for the resources received that does not approximate the fair value. In these cases, the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which shall be recognised separately.

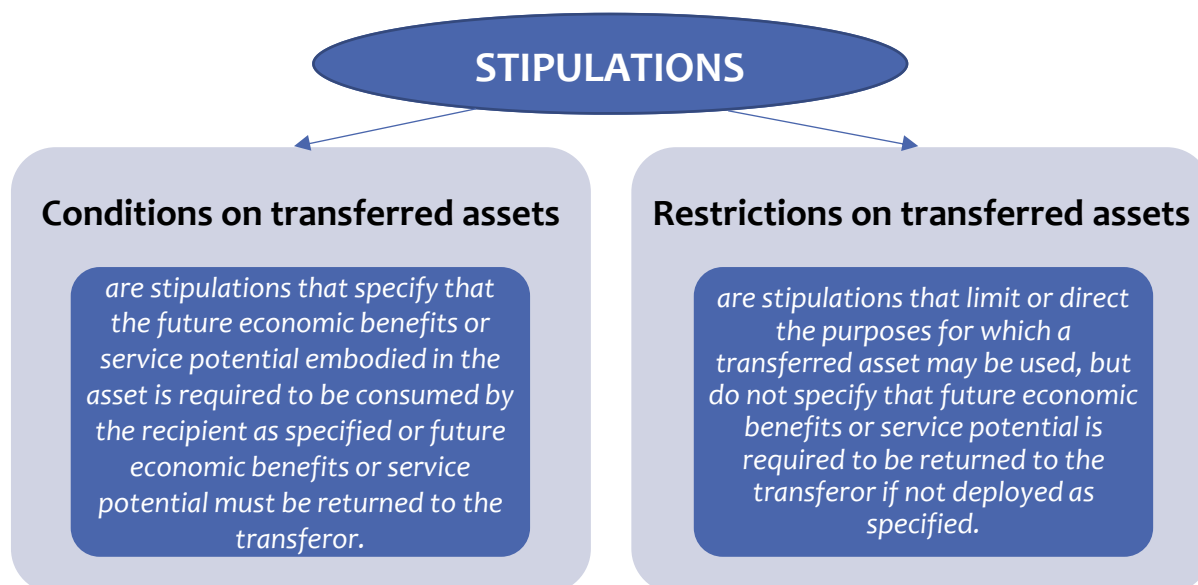
An entity may also have other transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

1.6 REVENUE

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners.

Where the entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognised as a cost of the transaction. e.g. the delivery and installation costs in relation to the transfer of an item of plant, shall be recognised separately from the revenue arising from the transfer of the item of plant. The accounting treatment of these costs is dealt with in the Accounting Policy on Property, Plant and Equipment.

1.7 STIPULATIONS, CONDITIONS ON TRANSFERRED ASSETS, RESTRICTIONS ON TRANSFERRED ASSETS



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.

Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient (i.e. the reporting entity), these terms are stipulations. 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**. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (**performance obligation**) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (**return obligation**).

Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Accounting Policy. Constructive obligations do not arise from stipulations. The requirements for recognition and measurement of constructive obligations are dealt with in the Accounting Policy on Provisions, Contingent Liabilities and Contingent Assets.

1.7.1 CONDITIONS ON TRANSFERRED ASSETS

The recipient of the transferred assets that are subject to **conditions, incurs a present obligation** to transfer future economic benefits or service potential to third parties when it initially gains **control of an asset** subject to a condition. This is because the recipient is unable to avoid the outflow of resources, as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties, or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially **recognises an asset that is subject to a condition**, the recipient also **incurs a liability**.

A transferred asset or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity's financial statements shall recognise the gross amounts in its financial statements (i.e. the entity will recognise a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities and or revenue for the new transfer).

1.7.2 RESTRICTIONS ON TRANSFERRED ASSETS

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. When initial control of an asset is gained and that asset is **subject to a restriction**, this does **not** impose on the recipient **a present obligation** to transfer future economic benefits or service potential to third parties.

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 (e.g. take the matter to a court/other administrative process/responsible authority). Such actions may result in the entity being directed to fulfil the restriction or face a civil or criminal penalty for defying the court/administrative process/responsible authority. A penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

The diagram in Appendix 1 and the examples in Appendix 2 are relevant to section 1.7 of this accounting policy.

1.8 SUBSTANCE OVER FORM

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. More specifically, the entity considers whether a **requirement to return the asset** or other future economic benefits or service potential **is enforceable**, and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition, and will be considered a **restriction**.

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

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.

1.9 PRINCIPAL VERSUS AGENT CONSIDERATIONS

Amounts collected as an agent of other parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives. For example, where an entity collects fines as an agent, these will not be revenue for the collecting entity.

An entity shall be categorised as a principal or as an agent of another third party, based on the indications included in the Appendix 3 “*Principal versus Agent Considerations*” (extracted from IFRS 15 *Revenues from Contracts with Customers*).

2. RECOGNITION OF REVENUE FROM NON-EXCHANGE TRANSACTIONS

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it shall reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction.

A public sector entity will recognise an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria.

When an entity recognises an increase in net assets as a result of a non-exchange transaction, it recognises revenue. If it has recognised a liability in respect of the inflow of resources arising from the non-exchange transaction, (i.e. the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied), it recognises revenue.

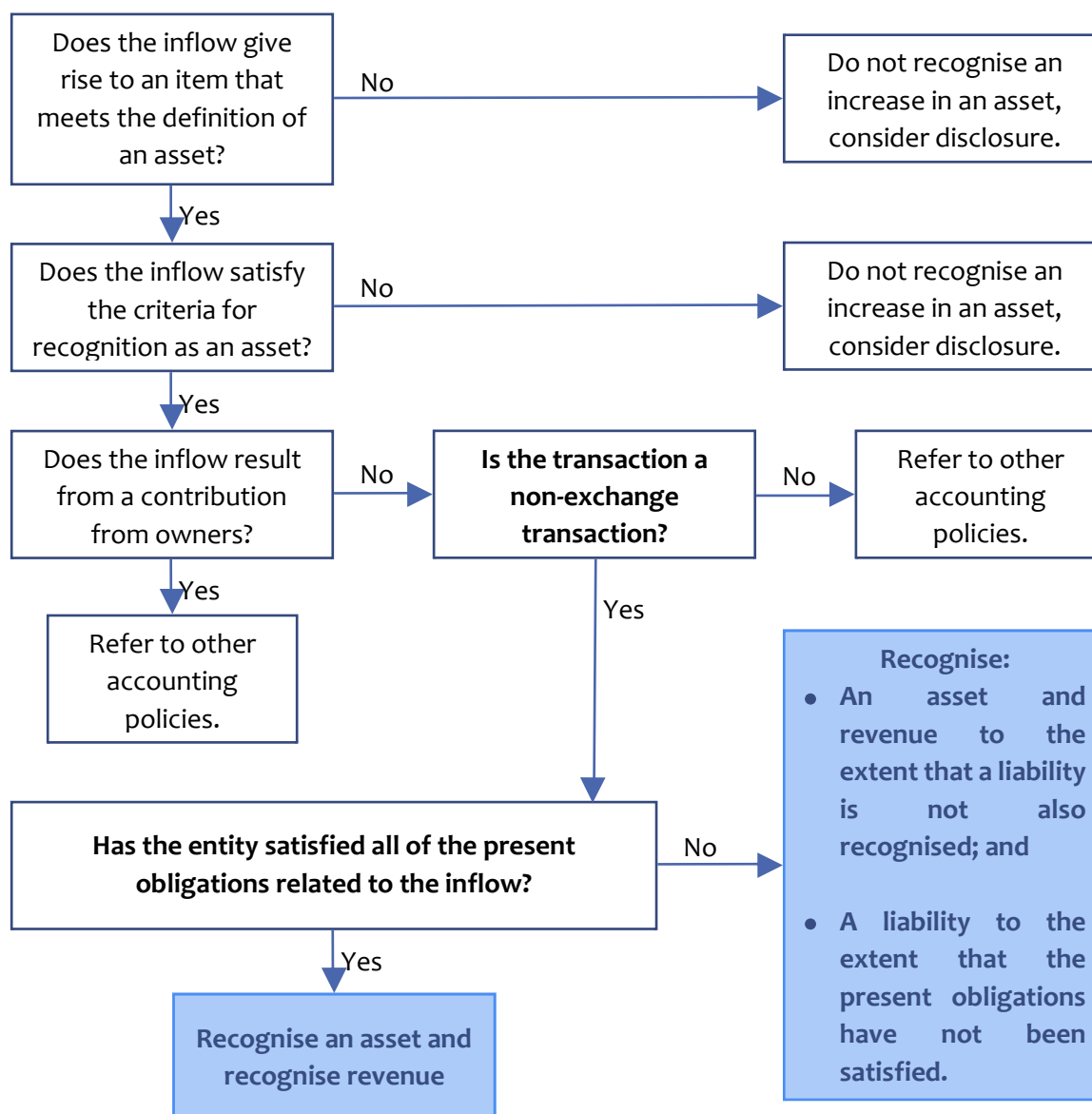
If an inflow of resources satisfies the definition of contributions from owners, it is not recognised as a liability or revenue.

The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognised as goods or services are provided.

Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity shall recognise both an exchange and a non-exchange component. The exchange component is recognised according to the principles and requirements of the relevant accounting policy. The non-exchange component is recognised according to the principles and requirements of this accounting policy. 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**.

2.1 ILLUSTRATION OF THE ANALYSIS OF INITIAL INFLOWS OF REOURCES

When there is an inflow of resources to the entity, the entity analyses this inflow in order to determine whether revenue arises. The flow chart below¹ illustrates the analytic process the entity undertakes when there is such an inflow of resources. This accounting policy follows the structure of the flowchart.



¹ Flowchart source: IPSAS 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers). The flowchart is illustrative only; it does not take the place of this accounting policy. It is provided as an aid for interpreting this accounting policy.

3. MEASUREMENT OF REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

When, as a result of a non-exchange transaction, an entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured as described above, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured in accordance with the requirements of paragraph 4.3 (Measurement of Liabilities on Initial Recognition), and the amount of the increase in net assets, if any, will be recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

4. PRESENT OBLIGATION RECOGNISED AS LIABILITIES

A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognised as a liability when, and only when:

- a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
- b) A reliable estimate can be made of the amount of the obligation.

4.1 PRESENT OBLIGATION

A present obligation is a duty to act or perform in a certain way, and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to laws, regulation, or other binding arrangements that impose stipulations that they be used for particular purposes. For example:

- a) Taxes, the use of which is limited by laws or regulations to specified purposes;
- b) Transfers, established by a binding arrangement that includes conditions:
 - (i) From central government to local authorities;
 - (ii) From central government to other public sector entities; and
 - (iii) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regulators.

In the normal course of operations, a reporting entity may accept resources prior to the occurrence of a taxable event. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognised until the taxable event occurs.

If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognises a liability for an advance receipt until such time as the arrangement becomes binding.

4.2 CONDITIONS ON A TRANSFERRED ASSET

Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognised 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.

4.3 MEASUREMENT OF LIABILITIES ON INITIAL RECOGNITION

The amount recognised as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.

The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation.

5. TAXES

Taxes are defined as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation.

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.

Non-compulsory transfers to the government or public-sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

Tax laws and regulations establish a government's right to collect the tax, identify the basis on which the tax is calculated, establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received.

5.1 RECOGNITION AND MEASUREMENT OF TAXES

5.1.1 RECOGNITION

An entity shall recognise an asset in respect of taxes when:

- i) the taxable event occurs; and*
- ii) the asset recognition criteria are met.*

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.

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

5.1.1.1 THE TAXABLE EVENT

The reporting entity shall analyse the taxation law in order to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:

- a) Income tax is the earning of assessable income during the taxation period by the taxpayer;
- b) Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;
- c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
- d) Customs duty is the movement of dutiable goods or services across the customs boundary;
- e) 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.

5.1.1.2 ADVANCE RECEIPTS OF TAXES

Resources for taxes received prior to the occurrence of the taxable event are recognised 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 recognised until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognised.

5.1.2 MEASUREMENT OF ASSETS ARISING FROM TAXATION TRANSACTIONS

Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity.

Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with the relevant Accounting Policy on Accounting Policies, Changes in Accounting Estimates and Errors.

5.1.2.1 EXPENSES PAID THROUGH THE TAX SYSTEM AND TAX EXPENDITURES

- *Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.*
- *Taxation revenue shall not be grossed up for the amount of tax expenditures.*

Where the tax system is used by the government as a convenient method of paying to taxpayers benefits that would otherwise be paid using another payment method (e.g. write a check, direct deposit to the taxpayer's bank account, settle another account on behalf of the taxpayer), this amount should be recognised separately as an **expense** on the Statement of Financial Performance. This amount is payable to the government irrespective of whether the taxpayer pays taxes, consequently the tax revenue **shall be grossed up and increased** to the amount of any of these expenses paid through the tax system.

Where tax expenditures are permitted to be deducted by the taxpayers from their gross income when calculating their tax-assessible income, the tax revenue reported by the government **shall not be grossed up** with these **tax expenditures**. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources, i.e. they do not give rise to assets, liabilities, revenue, or expenses of the taxing government.

The offsetting of tax revenue and expenses paid through the tax system is not permitted.

6. TRANSFERS

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

Transfers satisfy the definition of non-exchange transactions because the transferor provides resources to the recipient entity without the recipient entity providing approximately equal value directly in exchange. If an agreement stipulates that the recipient entity is to provide approximately equal value in exchange, the agreement is not a transfer agreement, but a contract for an exchange transaction that should be accounted for under the Accounting Policy on Revenue from Exchange Transactions.

An entity analyses all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

Transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods in-kind and services in kind. Services in-kind shall not be recognised as assets or revenue under the requirements of this accounting policy.

Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their fair value can be reliably measured.

In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset as a result of the transfer, the entity decreases the carrying amount of the liability.

An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity promises to transfer resources, but fails to do so. Consequently, only when (a) 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 recognised. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

6.1 RECOGNITION AND MEASUREMENT OF TRANSFERS

- An entity shall **recognise** an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.
- Transferred assets are **measured** at their fair value as at the date of acquisition.

6.1.1 DEBT FORGIVENESS AND ASSUMPTION OF LIABILITIES

Entities **recognise** 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.

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

6.1.2 FINES

Fines are economic benefits or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations.

Fines normally require an entity to transfer a fixed amount of cash to the government, and do not impose on the government any obligations which may be recognised as a liability. As such, fines are **recognised** as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are **measured** at the **best estimate** of the inflow of resources to the entity.

6.1.3 BEQUESTS

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, (e.g. on the death of the testator, or the granting of probate), depending on the relevant laws.

Bequests that satisfy the definition of an asset are **recognised** as assets and revenue when:

- i) it is probable that the future economic benefits or service potential will flow to the entity, and
- ii) the fair value of the assets can be measured reliably.

Bequests are **measured at the fair value** of the resources received or receivable.

The fair value of bequeathed assets is determined in the same manner as for gifts and donations (paragraph 6.1.4), i.e. on initial recognition, bequests are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. Where a deceased estate is subject to taxation, the tax authority may determine the fair value of the asset bequeathed to the entity, and thus this amount can be used.

6.1.4 GIFTS AND DONATIONS, INCLUDING GOODS IN-KIND AND SERVICES IN-KIND

1. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, and goods in-kind, and service in kind that one entity makes to another, normally free from stipulations. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. Services in-kind are services provided by individuals to public sector entities in a non-exchange transactions.
2. 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 that gives rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation.

3. **Gifts and donations** are **recognised** as assets and revenue when:
 - i) it is probable that the future economic benefits or service potential will flow to the entity, and
 - ii) the fair value of the assets can be measured reliably.

4. **Goods in-kind** are **recognised** as assets when:
 - i) the goods are received, or
 - ii) there is a binding arrangement to receive the goods.If goods in-kind are received without conditions attached, revenue is recognised immediately. However, if conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

5. On initial recognition, gifts and donations including goods in-kind are **measured at their fair value** as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal.

6. **Services in-kind** shall not be recognised as assets or revenue under the requirements of this accounting policy.

6.1.5 PLEDGES

Pledges are unenforceable undertakings to transfer assets to the recipient entity. However, 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 recognise pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognised as a gift or donation, in accordance with paragraph of 6.1.4 above. Pledges may warrant disclosure as contingent assets under the requirements the Accounting Policy on Provisions, Contingent Liabilities and Contingent Assets.

6.1.6 ADVANCE RECEIPTS OF TRANSFERS

Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognised as an asset when they meet the definition of an asset and satisfy

the criteria for recognition as an asset. The entity will also recognise an advance receipt liability if the transfer arrangement is not yet binding.

Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognised until the event 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 recognised.

6.1.7 CONCESSIONARY LOANS

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 Accounting Policy on Financial Instruments.

The entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition (as per Accounting Policy on Financial Instruments) is a non-exchange revenue, that should be accounted for in accordance with this Accounting Policy. Where an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is a non-exchange revenue, an entity recognises the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred assets by the recipient result in a present obligation. Where a present obligation exists, it is recognised as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognised.

7. DISCLOSURES

1. An entity shall disclose in the notes to the financial statements:
 - (a) The amount of revenue from non-exchange transactions recognised during the period by major classes showing separately:
 - (i) Taxes, showing separately major classes of taxes; and
 - (ii) Transfers, showing separately major classes of transfer revenue.
 - (b) The amount of receivables recognised in respect of non-exchange revenue;
 - (c) The amount of liabilities recognised in respect of transferred assets subject to conditions;
 - (d) The amount of liabilities recognised in respect of concessionary loans that are subject to conditions on transferred assets;
 - (e) The amount of assets recognised that are subject to restrictions and the nature of those restrictions;
 - (f) The existence and amounts of any advance receipts in respect of non-exchange transactions; and
 - (g) The amount of any liabilities forgiven.

2. An entity shall also disclose in the notes to the 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
 - (d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

8. TRANSITIONAL PROVISIONS

No transitional exemptions are elected to be applied on the adoption of IPSAS 23 “Revenue from Non-Exchange Transactions (Taxes and Transfers)”.

9. EFFECTIVE DATE

The rules mentioned above shall be effective for annual financial statements covering periods beginning on or after 1 January 2020.

10. REFERENCES

This accounting policy is based on the following:

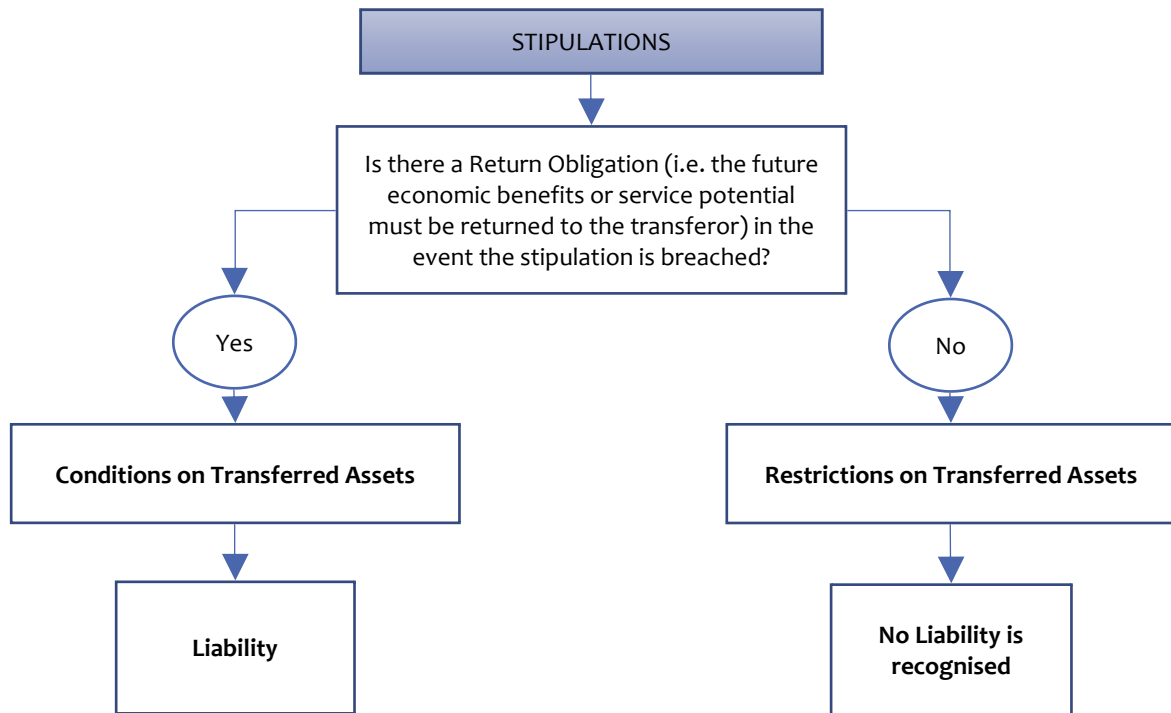
IPSAS 1 Presentation of Financial Statements

IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)

IPSAS 33 First Time Adoption of Accrual Basis IPSASs

11. APPENDICES

APPENDIX 1: CONDITIONS ON TRANSFERRED ASSETS VERSUS RESTRICTIONS ON TRANSFERRED ASSETS



APPENDIX 2: EXAMPLES

1. Grant to another entity with no Stipulations

The central government (transferor) makes a grant of €2 million to a local authority in a socioeconomically deprived area. The local authority (reporting entity) is required under its constitution to undertake various social programs; however, it has insufficient resources to undertake all of these programs without assistance. There are no stipulations attached to the grant. The central government grant makes the cash transfer for general purposes, without any conditions or restrictions. All local authorities are required to prepare and present audited financial statements.

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

2. Transfer to a public sector university with Restrictions

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

The university recognises the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognised in accordance with the Accounting Policy on Property, Plant and Equipment. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognises revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognised as an asset.

3. Grant to another reporting entity with Conditions

The central government (transferor) grants €5 million to a government health services entity (reporting entity) to be used to improve and maintain the public health system. Specifically, the money is required to be used as follows: 30 percent for the existing health system modernisation, 50 percent for new health systems, and 20 percent for stock vaccination purchases. Under the terms of the grant, the money can only be used as stipulated, and the health services entity is required to include a note in its audited

financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the central government.

The health services entity recognizes the grant money as an asset. Also, the health services entity shall recognise a liability in respect of the condition attached to the grant. As the entity satisfies the conditions, that is, as it makes authorised expenditures, it reduces the liability and recognises revenue in the statement of financial performance of the reporting period in which the liability is discharged.

APPENDIX 3: PRINCIPAL VERSUS AGENT CONSIDERATIONS²

1. When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for the other party to provide those goods or services (i.e. the entity is an agent).
2. An entity is a principal if the entity controls a promised good or service before the entity transfers the good or service to a customer. However, an entity is not necessarily acting as a principal if the entity obtains legal title of a product only momentarily before legal title is transferred to a customer. An entity that is a principal in a contract may satisfy a performance obligation by itself or it may engage another party (for example, a subcontractor) to satisfy some or all of a performance obligation on its behalf. When an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred.
3. An entity is an agent if the entity's performance obligation is to arrange for the provision of goods or services by another party. When an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.
4. **Indicators that an entity is an agent** (and therefore does not control the good or service before it is provided to a customer) include the following:
 - a. Another party is primarily responsible for fulfilling the contract;
 - b. The entity does not have inventory risk before or after the goods have been ordered by a customer, during shipping or on return;
 - c. The entity does not have discretion in establishing prices for the other party's goods or services and, therefore, the benefit that the entity can receive from those goods or services is limited;
 - d. The entity's consideration is in the form of a commission;
 - e. The entity is not exposed to credit risk for the amount receivable from a customer in exchange for the other party's goods or services.
5. If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance

² IFRS 15 – Revenues from Contracts with Customers

obligation to transfer the promised good or service to the customer (i.e. the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (i.e. whether the entity is acting as an agent).