

PBE IPSAS 23 Revenue from Non-Exchange Transactions – Differences to NZ IFRS (PBE)

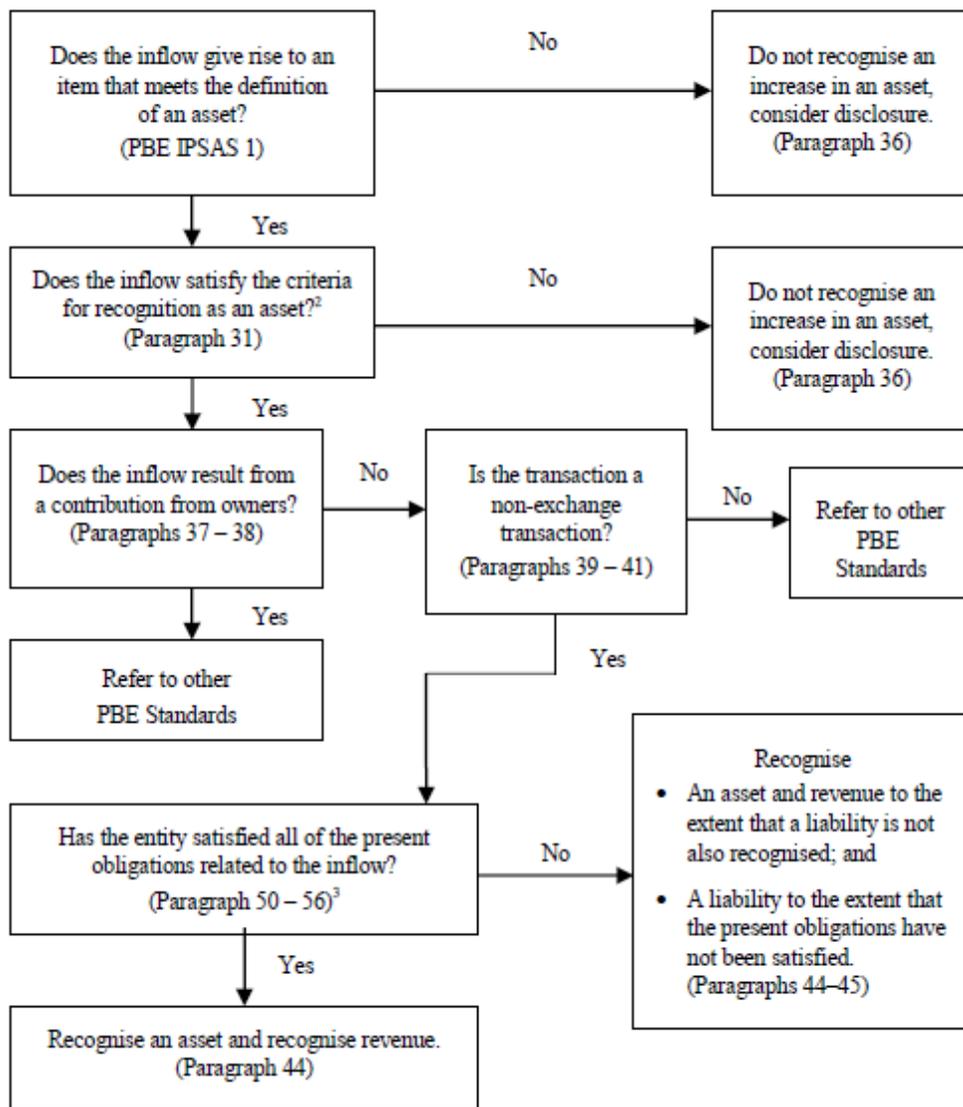
	PBE IPSAS 23
1	<p>A New standard to deal with Revenue from Non-Exchange Transactions</p> <p>The new framework includes two standards dealing with revenue – PBE IPSAS 23 <i>Revenue from Non-Exchange Transactions</i>, which has no equivalent in the NZ IFRS suite of standards, and PBE IPSAS 9 <i>Revenue from Exchange Transactions</i> (which is the equivalent of NZ IAS 18 (PBE)). As a consequence, when an entity is determining how to account for an item of revenue, the first step is to establish whether the revenue arises from an <i>exchange or non-exchange</i> transaction, as this will determine which standard applies. The two types of revenue are defined as follows:</p> <ul style="list-style-type: none">• <i>Exchange transactions</i> are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange. Examples of exchange transactions are the purchase or sales of goods or services or the lease of equipment at market rates.• <i>Non-exchange transactions</i> arise where an entity receives value from another entity without giving approximately equal value in exchange. Two main types of transactions applicable to the Government reporting group are: Transfers (e.g. grants, donations, gifts and pledges) and taxes (including levies). <p>PBE IPSAS 9.11</p> <p>The main difference between PBE IPSAS 9 and PBE IPSAS 23 is that:</p> <ul style="list-style-type: none">• PBE IPSAS 9 (exchange) does <u>not</u> require an explicit return obligation to be written into the contract for a liability to arise where revenue is received in advance of the supply of goods or services. This is because the contractual basis in an exchange transaction is sufficient to conclude a liability exists until the supply of goods or services are made.• PBE IPSAS 23 (non-exchange) takes a different view for the contractual basis of non-exchange transactions, and assumes no liability exists where revenue is received in advance of the supply of goods or services, unless an explicit return obligation is specified. <p>PBE IPSAS 23.17</p>

	<p>PBE IPSAS 23</p>
<p>2</p>	<p>Grants Received – Exchange or Non-Exchange Transaction?</p> <p>Determining whether a grant is exchange or non-exchange in nature requires judgment about the substance of the transaction between the grantor and the recipient. At one end of the spectrum, if the grantor expects nothing in exchange for the grant provided (i.e. a donation), the recipient’s revenue is clearly from a non-exchange transaction.</p> <p>At the other end of the spectrum, if the grantor expects to receive specified services or goods in exchange for the grant, and directly gives approximately equal value in exchange for those services or goods, the recipient’s revenue would meet the definition of an exchange transaction.</p> <p>In between the two ends of the spectrum, there may be a variety of arrangements and contracts with different exchange and non-exchange components.</p> <p>Deciding whether a grant is exchange or non-exchange is particularly important when the grant is received in advance of the services or goods being provided, to determine whether a liability should be recognised.</p> <p><i>Revenue Received in Advance on an Exchange Transaction</i></p> <p>If a grant is classified as an exchange transaction and is received in advance of an entity providing the related goods or services, deferred revenue is recognised. As goods or services are delivered, the deferred revenue liability is reduced and revenue equal to that reduction is recognised.</p> <p>(This is the accounting treatment under PBE IPSAS 9 Revenue from Exchange Transactions because the contractual basis in an exchange transaction is assumed to be sufficient to conclude a liability (deferred revenue) exists until the supply of goods or services are made).</p> <p><i>Received in Advance on a Non-Exchange Transaction</i></p> <p>When grant revenue is received in advance on a non-exchange contract it is important to determine whether a return stipulation (i.e. a condition) exists.</p> <p>If a grant represents a non-exchange transaction and is received in advance of an entity providing the related goods or services, deferred revenue is only recognised where there is a requirement to return the grant to the transferor if the grant is not used as stipulated. As the grant is used as stipulated, the deferred revenue liability is reduced and revenue equal to that reduction is recognised.</p> <p>If there is no return stipulation attached to the grant, revenue is recognised when the grant is received (even if there are other stipulations for using the grant).</p> <p>PBE IPSAS 23.44-46</p>

PBE IPSAS 23

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Illustration of the Analysis of Initial Inflows of Resources¹



On the left is a flow diagram included in the standard to assist with the recognition of non-exchange revenue. Below are some definitions and explanatory notes.

An inflow of resources from a non-exchange transaction (other than services in-kind) meets the definition of an asset when and only when:

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

PBE IPSAS 23.31

A present obligation arising from a non-exchange transaction meets the definition of a liability only when

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

PBE IPSAS 23.50

A present obligation arises where there is a condition on a transferred asset.
PBE IPSAS 23.55

A condition is a stipulation that requires the asset to be used as specified or returned to the transferor.

PBE IPSAS 23.7

Stipulations are terms imposed on the use of a transferred asset and must be enforceable through legal or administrative processes.

PBE IPSAS 23.7

When the asset is not required to be returned if the specifications are not met, then the stipulation is a restriction only and does not result in a liability.

PBE IPSAS 23.7

	<p>PBE IPSAS 23</p>
<p>4</p>	<p>Further Guidance on Stipulations, Restrictions and Conditions</p> <p>Paragraphs 14 to 25 of PBE IPSAS 23 provide a useful discussion of what constitutes a stipulation, restriction or condition. For example: the requirement of a condition to specify the nature and quantity of goods and services to be provided; and consideration of whether the transferor will, in reality, enforce the return of the asset if the conditions are not met.</p>
<p>5</p>	<p>What the Standard Requires</p> <p>If an asset (e.g. cash) is received from a non-exchange transaction the following applies:</p> <ul style="list-style-type: none"> (a) an asset acquired through a non-exchange transaction shall initially be measured at fair value as at the date of acquisition; (b) 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; (c) a liability is recognised when the asset comes with a condition that requires the asset to be used as stipulated or returned to the transferor; and (d) 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.
<p>6</p>	<p>Taxes</p> <p>Taxation meets the definition of a non-exchange transaction because the tax payer transfers resources to the Government, without receiving approximately equal value directly in exchange.</p> <p>PBE IPSAS 23.63</p>

	<p>PBE IPSAS 23</p>
<p>7</p>	<p>The Impact of PBE IPSAS 23</p> <p>The impact of PBE IPSAS 23 will depend on the previous accounting policies applied in respect to non-exchange transactions under NZ IFRS (PBE).</p> <p>There are three main things to consider:</p> <ol style="list-style-type: none"> 1. Where non-exchange transactions do not result in the recognition of a liability for ongoing present obligations, revenue is recognised immediately based on fair value of assets received. 2. Where non-exchange transactions do result in the recognition of a liability for ongoing present obligations, deferred revenue is recorded to the extent of those present obligations. 3. Taxes are recognised when the taxable event occurs, it is probable that the inflow of resources will occur and their fair value can be measured reliably. <p>Therefore:</p> <ul style="list-style-type: none"> • Individual entities will need to assess their grants and donations received to determine if any present obligations exist: (i.e. are there specific conditions attached to the funds received <u>and</u> the grantor can demand repayment if the conditions attached to the funds transferred are not satisfied?); • If the funds received are subject to restrictions, but not subject to any return conditions and no present obligation exists – no liability is recognised in relation to the funds transferred. • No change in the treatment of taxes is required as Crown accounting policies for taxes are consistent with PBE IPSAS 23, so we would not expect a significant impact on the recognition and measurement of tax revenue on transition to the new PBE standards). <p>The most significant impact is likely to be where funds are transferred in advance of the related services in a non exchange transaction <u>without</u> a return condition. This may lead to an earlier recognition of revenue, depending on how such transactions were accounted for under NZ IFRS.</p>